City of San Antonio

Five Year Financial Forecast

FY 2018-2022

A CURRENT AND LONG-RANGE ASSESSMENT OF FINANCIAL CONDITIONS AND COSTS FOR CITY SERVICES

CITY OF SAN ANTONIO

Five Year Financial Forecast

Fiscal Year 2018-2022

PREPARED BY:

OFFICE OF MANAGEMENT AND BUDGET

MAY 10, 2017

CITY OF SAN ANTONIO

FIVE YEAR FINANCIAL FORECAST

FY 2018 – FY 2022

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OVERVIEW AND SUMMARY

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The Financial Forecast provides a current and long-range financial assessment addressing revenues, City services and programs, and financial reserve policies. The primary objective of the Forecast is to provide the City Council and the community with an early financial assessment and identify significant issues that need to be addressed in the budget development process.

The forecast information presented in this document combines projected resources, current service expenditures, and mandated expenditures to illustrate the financial impact to the General Fund, Development Services Fund, Hotel Occupancy Tax (HOT) Funds, and the Solid Waste Operating Fund. Recent revenue trends and economic assumptions (many of which can be found in the Economic Outlook & Perspective section of this document) are used to develop these figures. Service expenditures required to sustain the current (FY 2017) level of services are used throughout the forecast period based in part on the rate of inflation. The net result of this combined data highlights the adjustments needed over the forecast period to maintain a balanced budget as required by State law. Many of the assumptions, projections, and cost estimates within this document are based on early and preliminary information that will be refined and adjusted as the FY 2018 Proposed Operating Budget is developed and presented to City Council on August 10, 2017.

GENERAL FUND – POTENTIAL IMPACT OF FEDERAL AND STATE LEGISLATION

The General Fund Forecast was prepared during a time of uncertainty for the City as both federal and state potential legislation could place a tremendous amount of pressure on the General Fund.

In March 2017, the U.S. Office of Management and Budget (OMB) released the President's Proposed Budget Blueprint for FY 2018. This budget blueprint is considered to be a topline budget that gives Congress a view of the President's priorities which is the first step in the federal process. The President's budget proposal initiates a comprehensive examination of the federal budget and the start of extensive negotiation with Congress.

The Budget Blueprint as presented in March would reduce federal support to both the City and community organizations by eliminating Community Development Block Grant (CDBG), Community Services Block Grant (CSBG), HOME Investment Partnership Program (HOME) and reducing the Supplemental Nutrition Program for Women, Infants, and Children (WIC). In total the City receives $18 million in funding from these four grants. CDBG, CSBG, and HOME grants provide funds for community development activities such as development of affordable housing, anti-poverty programs, and infrastructure development. Additionally, WIC provides funds for supplemental foods, health care referrals, and nutrition education for low-income pregnant and postpartum women, and to infants and children up to age five who are found to be at nutritional risk.

The City also faces uncertainty at the Texas state level which is currently in their 85th Legislature. The Legislature is considering a number of bills which could negatively impact the City. This legislation includes property tax revenue caps which would place a cap on how much the City's property tax on existing property could grow. Currently, the City's property tax on existing property cannot exceed 8% without being subject to a petition by citizens for a roll back election.

Three different pieces of legislation have been introduced which would cap property tax revenue growth at 4%, 5%, or 3% with inflation. At the time of publication, a 5% revenue cap had passed the State's Senate and a 3% with inflation revenue cap was being heard in the State's House Ways and Means Committee.

If any one of these three versions is signed into law, it would impact the City's ability to grow and continue providing basic services such as police, fire, street maintenance, park maintenance, code enforcement, and animal care services. For example, if the revenue caps had been in place for the past 10 years, the City would have received between $163 and $300 million in less revenues and the General Fund would be between $43 and $58 million smaller in FY 2017.

This is equivalent to the entire Parks and Recreation Department's budget which is less than $50 million, or the Library's budget which is less than $40 million.

Another piece of legislation that could impact the City is the proposed "Bathroom Bill" which defines access to public facilities specifically bathrooms. This bill has the potential to impact the City through loss of economic activity, loss of jobs, and loss of tax receipts from a potential reduction in visitors and businesses to San Antonio. A study completed by the Perryman Group for the San Antonio Area Tourism Council estimates the initial impact on business activity in the San Antonio area would be a loss of gross product of $411.9 million each year as well as a loss of 4,650 jobs. According to an independent study on the economic and fiscal impact of the 2018 NCAA Men's Final Four Basketball Championship on San Antonio, if the tournament was to relocate as a result of the passage of this bill, the City could potentially lose $135 million in economic activity generated by hosting this event.

GENERAL FUND

The external factors described above were taken into consideration as the Five Year Forecast was developed. The forecasted General Fund for FY 2018 reflects a positive ending balance of $14.9 million assuming no additional expenditures related to Policy Issues.

During the forecast period, total General Fund revenue is expected to grow annually at rates ranging from 2.7% to 3.4%. The FY 2017 Revenue Estimate is approximately $2.9 million higher than the FY 2017 Adopted Budget, or an overall increase of 0.3%. This increase is primarily due to revenues from the San Antonio Water System mainly due to a rate increase effective January 1, 2017 and recreation services. The rate of revenue growth projected in FY 2018 over the FY 2017 Adopted Budget is approximately 3.3%. Revenue growth beyond FY 2018 is forecasted at rates of 3.0% in FY 2019, 3.0% in FY 2020, 3.4% in FY 2021, and 2.7% in FY 2022.

The General Fund Forecast reflects the annual projected expenditures required to sustain the current Fiscal Year 2017 level of service. The growth in expenditures over the forecast period is primarily due to increases in health care costs, contractual and inflationary increases, and mandated operational costs associated with 2017 Bond Projects and other capital projects as well as the Collective Bargaining Agreement with Police and the Fire Evergreen clause. Additionally, expenditures include the costs associated with the Annexation of IH-10 West area which is anticipated to be fully annexed by the City in October 2019.

The General Fund contains two sections – the current service budget and a section highlighting additional expenditures associated with policy issues. The current service budget section shows the aggregate annual projected expenditures required to sustain the current FY 2017 level of services. The policy section provides budget scenarios for maintaining street maintenance at current level of $64 million, adding 25 new Uniformed Police Officers each year of the forecast, and adding one emergency medical services unit and three ladder trucks for Fire. These expenses will be considered and evaluated during the FY 2018 Budget Process and are shown in the schedule to provide estimated costs and the impact to the General Fund.

In the FY 2015 Adopted Budget, the City Council approved several financial policies. Consistent with these policies, the Five Year Financial Forecast maintains a General Fund Ending Balance 15% of General Fund revenues every year of the forecast.

FORECAST METHODOLOGIES AND ASSUMPTIONS

REVENUES

Departments responsible for administering the services and/or collecting the associated revenues work with the Office of Management & Budget to develop revenue projections based on an analysis of various factors. These include historical trends, current economic conditions, projected economic activity, and known future factors such as contracts and inter-local agreements. Revenue projections do not include fee or rate increases and are based on current service levels.

EXPENDITURES

Expenditures assumed in the Forecast are based on the current service level, or funding needed to provide today's level of recurring City services. Fiscal Year 2017 budget estimates are based on an analysis of current fiscal year expenditure trends by using six months of actual expenditures to project estimated expenditure levels at the end of FY 2017. The FY 2018 base projection modifies current service costs for price changes and assumes the removal of one-time improvements and adds second year costs for improvements included in the FY 2017 Adopted Budget. Inflation rates are also used to project certain non-personal services expenditures derived from the San Antonio Consumer Price Index (CPI) projections for each year from 2018 through 2022 (See Economic Outlook & Perspective section for more detail on CPI projections used).

Expenditures in the Forecast include funding for current contractual obligations, funding for the Police Collective Bargaining Agreement and Fire Evergreen Clause, continued maintenance of the civilian pay plan for step employees, performance-based pay for Civilian non-step employees, operations and maintenance costs for the 2017 Bond Program projects, and costs for providing services to IH-10 West Annexation, as well as other mandated expenditures. Mandated expenditures are described in more detail later in this document.

The City of San Antonio is financially strong and strives to provide high quality public services to the community while maintaining fiscal responsibility and affordability for taxpayers. As part of these efforts and per City Council policy direction, the forecast maintains budgeted financial reserves at 10% of General Fund revenues and maintains the Two-Year Budget Plan reserve of 5% of General Fund revenue. This total reserve of 15% achieves a structurally balanced General Fund through the forecast period assuming no new spending.

GENERAL FUND FORECAST

GENERAL FUND FORECAST

General Fund Forecast
($ in Millions)

	FY 2017 Budget	FY 2017 Estimate	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection
RESOURCES							
Beginning Balance (Excluding Reserves)							
Use of Reserve for Two Year Balanced Budget Plan	$ 69.7	$ 76.9	$ 73.2	$ 65.5	$ 60.4	$ 62.2	$ 64.4
CURRENT REVENUES							
Property Tax	$ 317.5	$ 317.5	$ 334.0	$ 347.5	$ 357.9	$ 377.9	$ 389.4
Sales Tax	275.8	275.8	285.5	295.5	308.0	318.7	329.9
CPS Energy	342.7	341.1	352.5	363.0	373.9	383.3	392.9
Other	199.3	203.8	201.1	201.9	204.9	207.3	210.2
TOTAL CURRENT REVENUES	$ 1,135.3	$ 1,138.2	$ 1,173.1	$ 1,207.9	$ 1,244.7	$ 1,287.2	$ 1,322.4
TOTAL RESOURCES	$ 1,205.0	$ 1,215.1	$ 1,246.3	$ 1,273.4	$ 1,305.1	$ 1,349.4	$ 1,386.8
TOTAL EXPENDITURES	$ 1,143.3	$ 1,138.0	$ 1,161.7	$ 1,200.9	$ 1,238.9	$ 1,275.1	$ 1,305.5
FINANCIAL RESERVES/TWO-YEAR BALANCED BUDGET							
Budgeted Financial Reserves for 10% (Incremental)	$ 3.9	$ 3.9	$ 4.1	$ 3.5	$ 3.7	$ 4.2	$ 3.5
Reserve for Two-Year Balanced Budget Plan	$ 57.8	$ 73.2	$ 65.5	$ 60.4	$ 62.2	$ 64.4	$ 66.1
Available for Policy Issues			15.0	8.6	0.3	5.7	11.7
ENDING BALANCE	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Potential Additional Expenditures/Policy Issues							
Maintains Street Maintenance at Current Level of $64 Million			$ 10.0	$ 14.1	$ 14.1	$ 14.1	$ 14.1
Police - 25 new Officers Each Year of Forecast			1.7	3.8	6.6	9.8	13.1
Fire- 1 EMS Unit & 3 Ladder Trucks			3.3	4.6	6.4	9.2	10.3
TOTAL ADDITIONAL EXPENITURES/POLICY ISSUES			***$ 15.0***	***$ 22.5***	***$ 27.1***	***$ 33.1***	***$ 37.5***
ADJUSTMENT REQUIRED TO FUND POLICY ISSUES			***$ -***	***$ (13.9)***	***$ (26.8)***	***$ (27.4)***	***$ (25.8)***
BUDGETED RESERVES SUMMARY							
Budgeted Financial Reserves	$ 113.5	$ 113.5	$ 117.6	$ 121.1	$ 124.8	$ 129.0	$ 132.5
Reserve for 2-year Balance Budget	$ 57.8	$ 73.2	$ 65.5	$ 60.4	$ 62.2	$ 64.4	$ 66.1
Total Financial Reserves as % of Current Revenues	***15.0%***	***16.4%***	***15.6%***	***15.0%***	***15.0%***	***15.0%***	***15.0%***

GENERAL FUND REVENUES

Total FY 2017 General Fund revenue is anticipated to be $2.9 million, or 0.3%, above the FY 2017 Adopted Budget. Over the forecast period, these revenues are expected to increase at an average annual rate of 3.0%, with annual rates of change ranging from 3.4% in FY 2021 to 2.7% in FY 2022.

General Fund Forecast of Current Revenues
($ in Millions)

Revenue	FY 2017 Budget	FY 2017 Estimate	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection
Current Property Tax	$ 317.5	$ 317.5	$ 334.0	$ 347.5	$ 357.9	$ 377.9	$ 389.4
City Sales Tax	275.8	275.8	285.5	295.5	308.0	318.7	329.9
CPS - Recurring	342.7	341.1	352.5	363.0	373.9	383.3	392.9
Business and Franchise Taxes	31.6	30.8	30.6	30.7	31.1	31.4	31.8
Liquor by the Drink Tax	8.3	8.6	8.8	8.9	9.1	9.3	9.5
Delinquent and Penalties	4.9	4.9	4.9	5.1	5.2	5.4	5.5
Licenses and Permits	8.8	9.0	9.1	9.1	9.6	9.5	10.0
San Antonio Water System	14.4	16.1	16.4	16.6	16.8	17.0	17.2
Other Agencies	7.6	7.6	6.9	5.1	5.1	5.2	5.2
Charges for Current Services	60.7	62.2	63.2	63.2	63.9	64.4	64.9
Fines	12.4	11.7	11.4	11.4	11.4	11.4	11.4
Miscellaneous Revenue	11.6	14.1	13.3	14.5	14.4	14.5	14.5
Transfers from Other Funds	39.0	38.8	36.5	37.3	38.3	39.2	40.2
Total Revenue	**$ 1,135.3**	**$ 1,138.2**	**$ 1,173.1**	**$ 1,207.9**	**$ 1,244.7**	**$ 1,287.2**	**$ 1,322.4**

CITY PUBLIC SERVICE ENERGY (CPS ENERGY)

Projected Annual Rates of Change for CPS Recurring Revenues

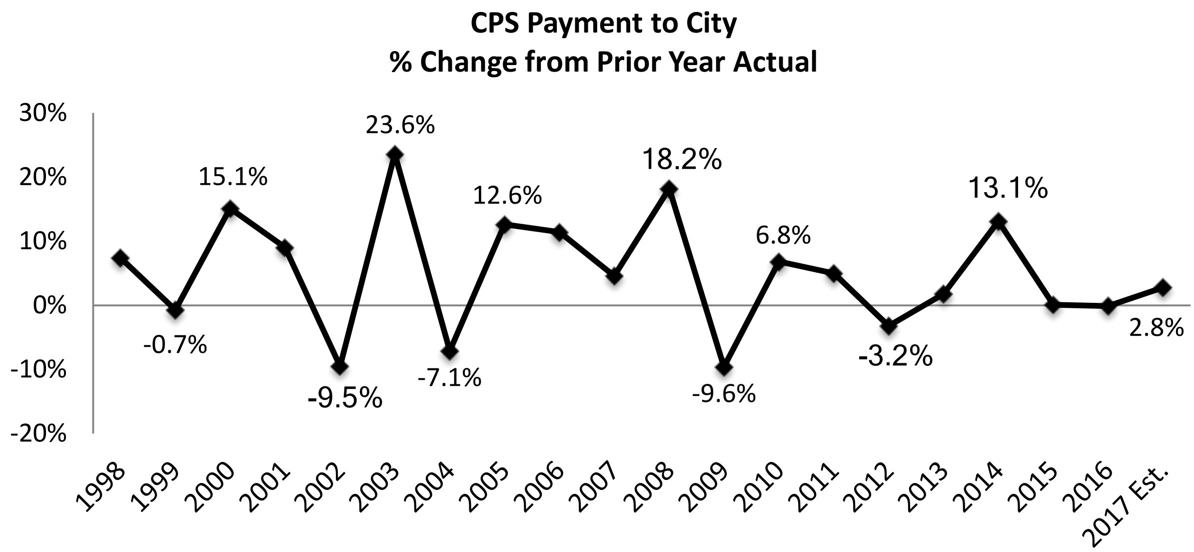
FY 2018[1]	FY 2019	FY 2020	FY 2021	FY 2022
2.8%	3.0%	3.0%	2.5%	2.5%

The City's payment from CPS Energy represents the largest source of revenue to the General Fund, accounting for 30.1% of the FY 2017 General Fund Adopted Budget. 14% of CPS Energy gas and electric gross revenue is paid to the City as a return on investment. The estimated revenue of $341.1 million for FY 2017 is $1.6 million lower than the $342.7 million budgeted in FY 2017 due to decreases in electric and natural gas revenue resulting from mild San Antonio weather throughout the winter and spring of FY 2017. One-time CPS revenues are not projected in the forecast.

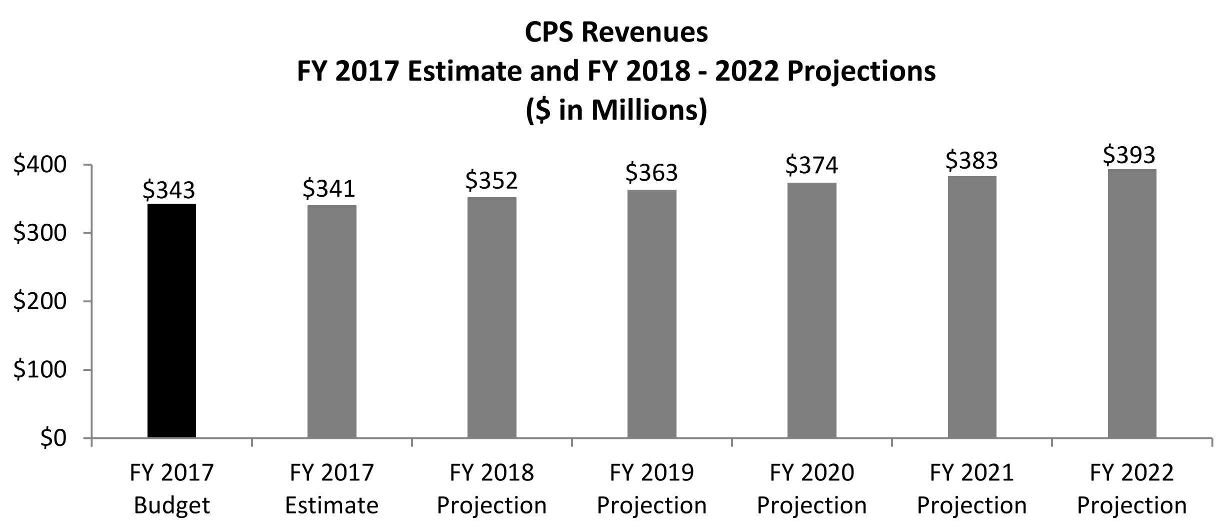
Accurately forecasting the CPS Energy payment revenue is challenged by a number of variables such as the weather, growth of the system, changes in per capita consumption, fuel prices, generation mix, and unscheduled maintenance on generation plants. Historically, instability in natural gas prices coupled with fluctuations in demand due to weather have resulted in significant variances in the City's payment from CPS Energy from year to year.

[1] CPS revenue is projected 3.3% above the FY 2017 Estimate and 2.8% above the FY 2017 Adopted Budget.

To further illustrate the fluctuations in demand, the graph below depicts the percent change in the City's annual payment from CPS Energy year-over-year.



In addition, natural gas cost and other fuel costs (e.g., solar, wind, coal, etc.) can result in significant fluctuations in the City's payment from CPS Energy. Consequently, the City's projections of the payment from CPS Energy remain conservative. The projections over the five-year period take into consideration factors such as a multi-year forecast outlook, managing the City's reliance on revenues from CPS Energy, and the current level of reserves within the City's General Fund.



The forecast for FY 2018 of $352.5 million is $9.7 million, or 2.8%, higher than the FY 2017 Adopted Budget and is $11.4 million, or 3.3%, higher than the FY 2017 Estimate.

The forecasted amounts for FY 2019 through FY 2022 are based on the FY 2018 Projection adjusted by an average growth rate of 2.7% for FY 2019 through FY 2022.

CURRENT PROPERTY TAX REVENUE – MAINTENANCE & OPERATIONS

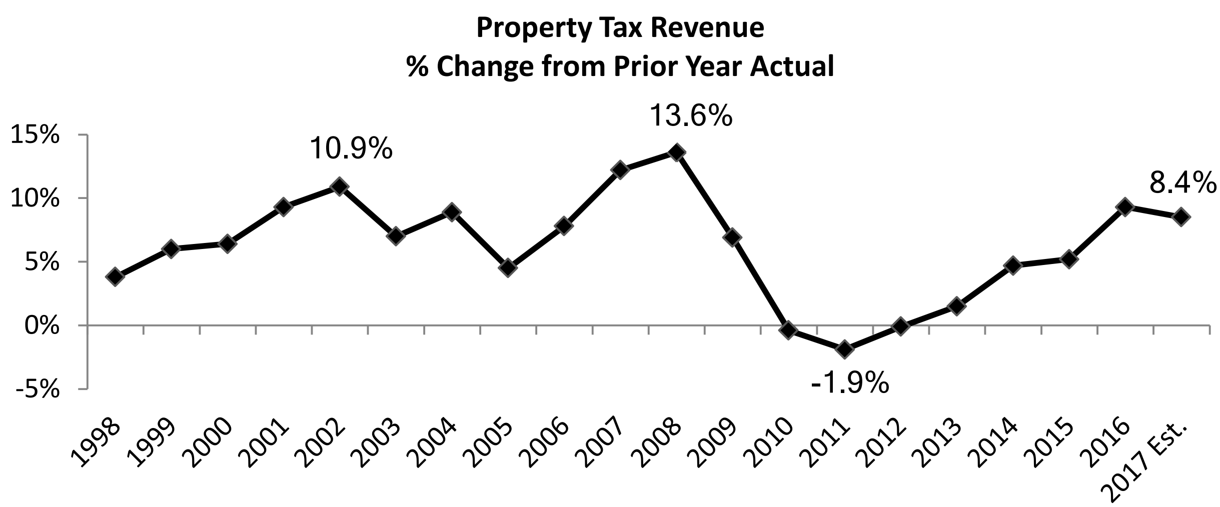
Projected Annual Rates of Change

FY 2018[2]	FY 2019	FY 2020	FY 2021	FY 2022
5.2%	4.0%	3.0%	3.0%	3.0%

Property tax revenue accounts for 27.9% of the total FY 2017 General Fund Budget. This revenue category is comprised of current property tax revenues only. Additional property tax revenues collected by the City that are accounted for in the Other Resources category include delinquent property tax and revenues from penalties and interest on delinquent property tax. Property tax revenue is generated from the City's ad valorem tax rate levied against taxable values as determined by the Bexar Appraisal District and in conformance with State law. The FY 2018 projected property taxable value is based on preliminary data from the Bexar Appraisal District. The final Certified Property Tax Roll will be available by the end of July 2017.

The City of San Antonio has long recognized the need to provide senior citizens and disabled veterans with property tax relief. The property tax revenue projections used in the budget and over the forecast period are derived from the City's total assessed value less exemptions such as the Over-65 and Disabled Residence Homestead and Disabled Veterans exemptions. City property taxes for the elderly and disabled are frozen and may not increase as long as the residence is maintained as a homestead by the owner. Additional tax relief provided by the City includes Tax Abatement/Phase-Ins exemptions, Freeport exemptions, Historic Property exemptions, and the 10% limitation on Residence Homestead Taxable Valuation.

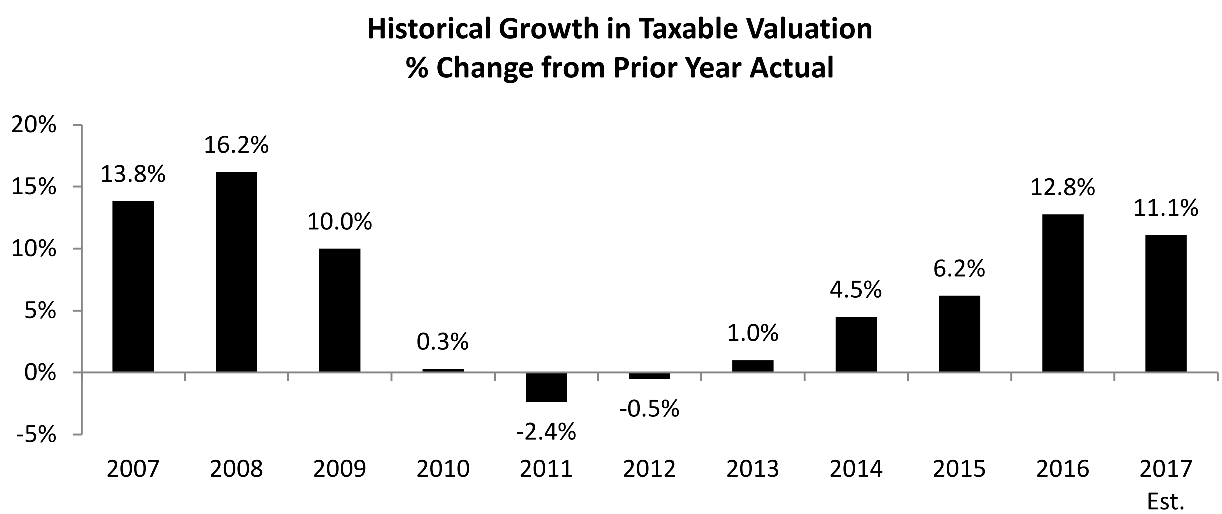
The revenue estimated to be generated in FY 2017 includes the current property tax rate of 55.827 cents per $100 of taxable valuation. The General Fund maintenance and operation portion is 34.677 cents with the remaining 21.150 cents used to support the City's debt service requirements. The revenue projected to be generated through the forecast period assumes no change in the City's Property Tax Rate. The City has not increased the property tax rate for twenty-four years and has decreased it seven times over that same period.



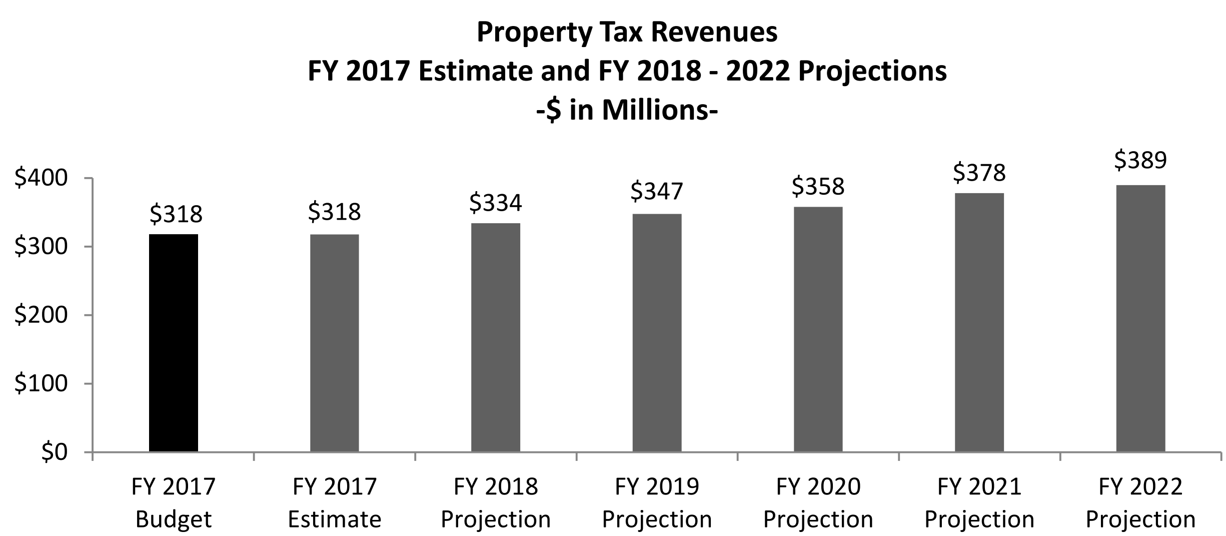
[2] Property Tax revenue is projected 5.2% above both the FY 2017 Estimate and the FY 2017 Adopted Budget.

Taxable valuations are estimated to increase by 6.4% in FY 2018 as compared to the FY 2017 Adopted Budget. Thereafter, taxable valuations are projected to increase by 4.0% in FY 2019 and 3.0% from FY 2020 through FY 2022. These estimates are a result of projections of base value change and new property improvements.

Assessed Valuation Category	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Base	3.34%	2.50%	1.50%	1.50%	1.50%
New Improvements	3.04%	1.50%	1.50%	1.50%	1.50%
Total % Change - Taxable Value	6.38%	4.00%	3.00%	3.00%	3.00%



The projections in assessed valuations result in City property tax revenue projections throughout the forecast period and are represented in the following graph.

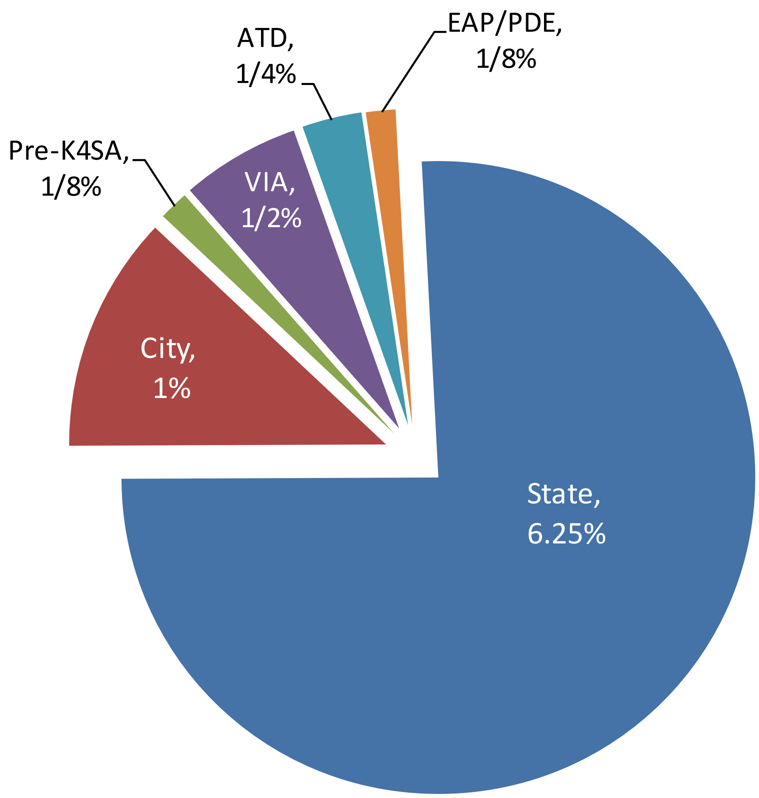


CITY SALES TAX REVENUE

Projected Annual Rates of Change

FY 2018[3]	FY 2019	FY 2020	FY 2021	FY 2022
3.5%	3.5%	3.5%	3.5%	3.5%

Sales tax revenue collected to support maintenance and operations of services in the General Fund accounts for 24.2% of the FY 2017 General Fund Budget. San Antonio's current sales tax rate is 8.25%. Several entities receive percentages of all sales tax proceeds as summarized in the chart below.

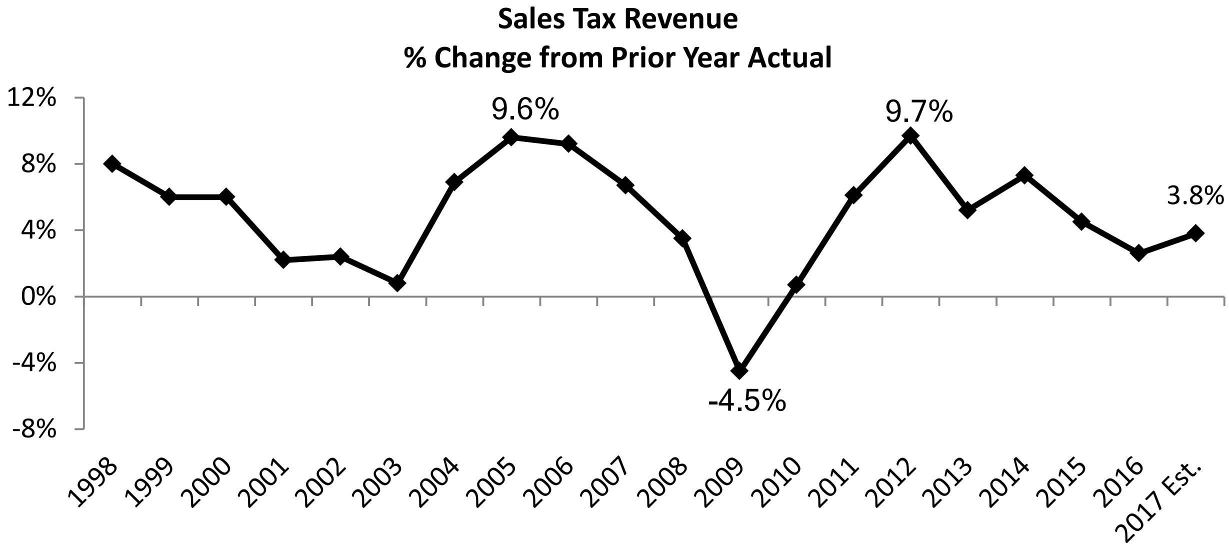


ATD: Advanced Transportation District
EAP: Edward Aquifer Protection
PDE: Parks Development & Expansion

Actual sales tax collections for the current year are projected to be $275.8 million. This amount is equal to the $275.8 million budgeted in FY 2017 for sales tax revenue. General Fund sales tax revenue in FY 2018 is projected to increase by 3.5% over both the FY 2017 Adopted Budget and FY 2017 Estimate. Beyond FY 2018, revenue levels from this source are expected to grow at an average rate of 3.5%. Future years' projections are based on historical trends, retail sales, and projected employment and population growth.

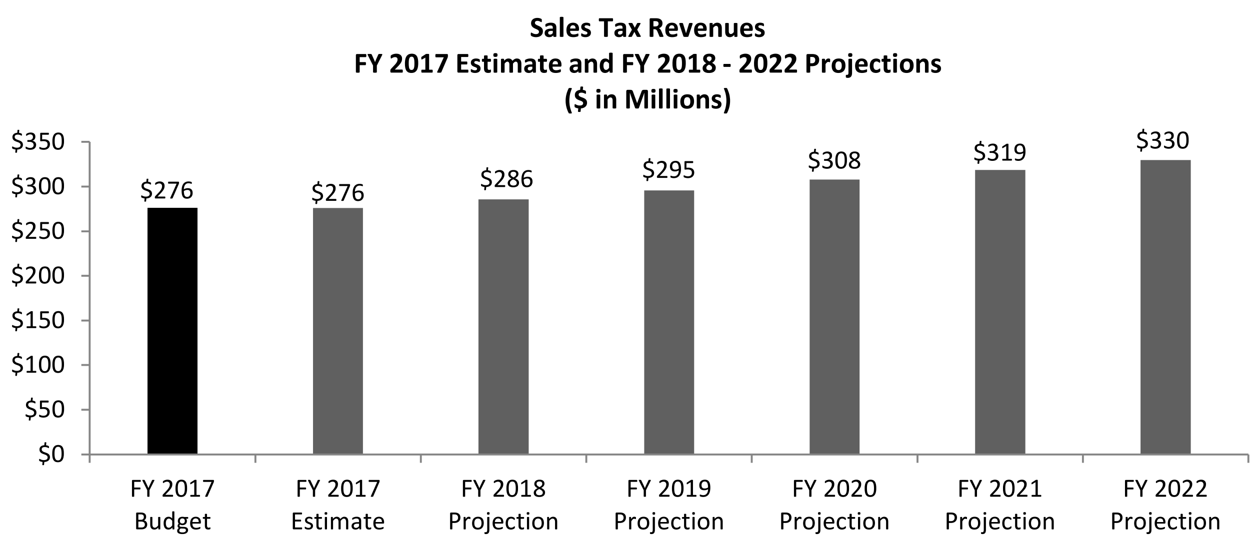
[3] Sales Tax revenue is projected 3.5% above both the FY 2017 Estimate and the FY 2017 Adopted Budget.

These estimates and the projections for the forecast period exclude the sales tax collected by the City for Pre-K 4 SA, the Edwards Aquifer Protection and Parks Development & Expansion venues, and the City's Advanced Transportation District.



Sales tax collections have a strong correlation to national and local economic conditions. As described in the Economic Perspective & Outlook section, both the local and national economies have grown over the past several years. Local economic measures such as the unemployment rate and employment growth rate have been stronger than national rates in recent years, and the local employment growth rate is projected to perform slightly better than the national trend for each year of the forecast period.

The projections in sales tax throughout the forecast period are shown in the following graph.



CHARGES FOR CURRENT SERVICE

Projected Annual Rates of Change

FY 2018[4]	FY 2019	FY 2020	FY 2021	FY 2022
4.3%	-0.1%	1.1%	0.8%	0.9%

This comprehensive category includes revenues related to recreation and culture such as the River Barge and Tower of America revenue contracts and library fines and fees, various general government service charges such as Municipal Court administrative fees associated with criminal cases tried in Municipal Court, Public Safety related revenues such as those generated by EMS Ambulance Service fees and alarm renewal fees, and revenues generated by birth and death certificates. Actual revenues for the current year are projected to be $62.2 million, or slightly above budget. Projected annual rates of change over the forecast period are based on known changes in revenue contracts or estimated demand.

BUSINESS AND FRANCHISE TAXES

Projected Annual Rates of Change

FY 2018[5]	FY 2019	FY 2020	FY 2021	FY 2022
-3.2%	0.5%	1.3%	0.9%	1.2%

The Business and Franchise Tax revenue category is primarily comprised of telecommunication providers' rights-of-way access line fees and cable television franchise fees. The forecast for FY 2018 is $30.6 million, which is comparable to the FY 2017 Estimate. The forecasted amounts for FY 2019 through FY 2022 grow at an average of 1.0% annually. Compensation from telecommunication providers is governed by state law and is comprised of a monthly fee paid to the City on a quarterly basis for each business line ($4.23) and each residential line ($1.27). These fees change every July 1 and the adjustment is based on ½ of the prior year's change in CPI. The new fees on July 1, 2017 will be $4.26 for business lines and $1.28 for residential lines. Revenue derived from Certified Telecommunications Providers (CTPs) has been declining based on a decrease in actual line counts as reported by CTPs on a quarterly basis to the Public Utility Commission of Texas. Other Cities throughout Texas, both large and small, are experiencing similar CTP revenue declines. The CTP forecast for FY 2018 is $14.0 million, which represents a $236,000 decrease from the FY 2017 Estimate of $14.2 million.

Compensation from cable/video providers for use of municipal rights-of-way is governed by state law. The cable/video providers are required to pay a quarterly franchise fee of 5.0% of gross revenues. The FY 2018 forecast for this revenue source of $14.6 million is $64,000 higher than the FY 2017 Estimate of $14.5 million.

[4] Charges for Current Service are projected 1.7% above the FY 2017 Estimate and 4.3% above the FY 2017 Adopted Budget.

[5] Business and Franchise Tax revenues are projected 0.7% lower than the FY 2017 Estimate and 3.2% lower than the FY 2017 Adopted Budget.

SAN ANTONIO WATER SYSTEM (SAWS) PAYMENT

Projected Annual Rates of Change

FY 2018 [6]	FY 2019	FY 2020	FY 2021	FY 2022
14.0%	1.2%	1.2%	1.2%	1.2%

The SAWS revenue payment to the City is based on 2.7% of SAWS' total projected revenue for each year of the forecast period. This payment agreement was initiated in April 1992 when certain City of San Antonio water and waste water systems were consolidated into the San Antonio Water System. The projected revenue for FY 2018 from SAWS is $16.4 million. This is an increase of $2.0 million, or 14.0%, from the FY 2017 Adopted Budget of $14.4 million and $0.3 million, or 2.0%, from the FY 2017 Estimate of $16.1 million. The projected increase for FY 2018 is based on the current rate structure which was last adjusted January 1, 2017, increasing rates by an average of 6.8% and a nominal growth rate. Projections for the forecast period are based on the current rate structure as approved by the City Council and SAWS' historical revenues for each of its core business units.

OTHER RESOURCES

Projected Annual Rates of Change

FY 2018[7]	FY 2019	FY 2020	FY 2021	FY 2022
-1.8%	0.5%	1.9%	1.5%	1.9%

Other revenues received by the General Fund include delinquent property tax, penalties and interest on delinquent tax, licenses and permits, fines, liquor by the drink, interest earnings, transfers from other funds, and other miscellaneous revenue. Other resources for the current year are projected to be approximately $94.7 million compared to the FY 2017 Revised Budget of $92.6 million. This $2.1 million increase is largely attributable to the sale of City properties and an increase in liquor by the drink revenue.

For FY 2018, total other General Fund revenue is expected to be $90.9 million, which is 4.0% lower than the FY 2017 Estimate. Included in the projections for FY 2018 through FY 2019 is the decrease of revenues received from Bexar County in exchange for providing county residents access to the City's libraries. During this time period, revenues associated with providing library access are reduced by $300,000 each year through FY 2019. Also, the City will no longer receive revenues from Bexar County in exchange for the City providing space at the City's Animal Care facilities. Bexar County will be using a new facility constructed in Kirby; therefore this payment from the County is not included in the forecast.

[6] SAWS revenues are projected 2.0% above the FY 2017 Estimate and 14.0% above the FY 2017 Adopted Budget.

[7] Other resources are projected 4.0% lower than the FY 2017 Estimate and 1.8% lower than the FY 2017 Adopted Budget.

MANDATED EXPENDITURES AND COMMITMENTS

Mandates are defined as programs which the City is required to support as stipulated by Federal, State, or Local Law, contractual obligation, or in order to support operations and maintenance costs for completed capital improvement projects.

The following table projects the cost requirements of mandated expenditures and commitments over the FY 2018 to FY 2022 forecast period and the impact to the General Fund. All expenditures shown are incremental.

Mandate Title	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
CAPITAL IMPROVEMENTS OPERATING & MAINTENANCE					
Linear Creekway Security	$ 197,355	$ 477,722	$ 389,870	$ 377,274	$ 0
San Pedro Creek Development Security	482,328	50,320	458,568	72,771	0
Outer District Parks Improvements	438,634	254,698	63,785	0	0
Parks Acquisition / Development	373,439	105,673	8,523	0	0
Linear Creekway Operating & Maintenance	403,041	822,873	211,335	134,681	0
2017 Bond Operating & Maintenance	0	0	1,302,564	2,865,593	2,459,667
Subtotal	**$ 1,894,797**	**$ 1,711,286**	**$ 2,434,645**	**$ 3,450,319**	**$ 2,459,667**
OTHER MANDATES					
Other Mandates	695,940	225,741	64,546	52,602	43,065
Subtotal	$ 695,940	$ 225,741	$ 64,546	$ 52,602	$ 43,065
Total Mandated Costs	**$ 2,590,737**	**$ 1,937,027**	**$ 2,499,191**	**$ 3,502,921**	**$ 2,502,732**

PARKS LINEAR GREENWAY PROGRAM

This mandate provides for the maintenance and security of new creek way and multi-use trails acquired through the Sales Tax Venues. During the forecast period (FY 2018 to FY 2022), the City anticipates development of 31.7 miles of additional greenway trails and acquisition of approximately 341 additional acres at various locations throughout the City.

SAN PEDRO CREEK DEVELOPMENT SECURITY

This mandate provides for the required staff and associated equipment, supplies, and services to patrol and provide security services to the 2.2 mile San Pedro Creek Restoration project. The project is scheduled to have River Walk style walkways and paseos, along with flood control components, ecosystem development features, and cultural and artistic amenities to include a performance-capable amphitheater. The first phase of this project (Houston Street to Cesar Chavez Blvd) is scheduled to be completed by May 2018. The second phase (Guadalupe Street to South Alamo Street) is scheduled to be completed by December 2019.

PARKS ACQUISITION AND DEVELOPMENT

This mandate provides for maintenance and security of new facilities and park components. During the forecast period (FY 2018 to FY 2022) the City anticipates acquiring about 141 additional park improvement components, 3.2 miles of exercise trails, and 6 new park acres to maintain. Park components include fitness stations, picnic units, playground, dog park, and pavilion.

2017 BOND PROGRAM PROJECTS OPERATIONS & MAINTENANCE

This mandate provides for operations and maintenance of the 180 capital projects included in the 2017 Bond Program. During the forecast period (FY 2018 – FY 2022), the City will construct 64 Streets, Bridges & Sidewalks projects; 19 Drainage & Flood Control projects; 79 Parks, Recreation & Open Space projects; 13 Library, Museum & Cultural Arts projects; and five Public Safety Facilities projects.

OTHER MANDATES

These mandates provide for increases to lease agreements, inter-local agreements, and management agreements.

ANNEXATION – IH-10 WEST

Annexation is the legal process that adds land to the corporate limits of the City. Annexation allows formerly unincorporated territory to receive municipal services such as police and fire protection, recycling and garbage collection, and City park services, among other services. Controlled annexation can yield a more logical land development pattern responding to population growth and economic development opportunities while minimizing urban sprawl and ensuring effective delivery of services.

On September 8, 2016, City Council adopted a Three – Year Annexation Plan for full purpose annexation for the IH-10 West area. With this action, the City will provide services to the commercial and residential areas on the 37th month from the date the City Council approved the three-year Municipal Annexation Plan on October 8, 2019, subject to a subsequent City Council vote for annexation.

The Forecast assumes that Sales Tax associated with this annexation will be realized beginning in FY 2020 and Property Tax will be received beginning in FY 2021. Other revenues from this area are assumed to be received beginning in FY 2020. The total projected revenue generated from the IH-10 West area for FY 2020 is $2.6 million, FY 2021 is $12.0 million, and FY 2022 is $12.5 million.

Additionally, the Forecast includes expenses related to both Police and Fire services as well as other City services. It is anticipated that expenses related to Police and Fire will begin in FY 2019 as cadets are hired for training to be ready for service when the area is annexed, and other City services will be funded in FY 2020. The total projected expense for the IH-10 West area in FY 2019 is $4.2 million, FY 2020 is $11.1 million, in FY 2021 is $11.9 million, and in FY 2022 is $12.1 million.

POLICY ISSUES TO BE CONSIDERED DURING THE FY 2018 BUDGET

The following paragraphs provide brief descriptions of potential additional expenditures to the General Fund that are not included in the current level of service. These expenses are shown as budget scenarios that would be discussed as part of the development of the FY 2018 Budget.

Maintain Street Maintenance at $64 Million

In FY 2016, funding for the Street Maintenance Program increased from $41 million to $64 million using a combination of General Fund Resources and Capital Budget Funds. The resources funded in the capital budget are projected to decrease in FY 2018 by $10 million and in FY 2019 and beyond by $15 million. This reduction results in a projected street maintenance program of $54 million for FY 2018 and $50 million for FY 2019 and beyond.

Maintaining the current level of funding of $64 million for street maintenance will be a policy issues that would be addressed as part of the FY 2018 Budget Process.

Police - Add 25 Officers each year of the Five Year Forecast

In order to keep up with the growth of the City, the Police Chief recommends adding 25 new police officers every year for the next five years. The cost associated with the new positions is a policy issue that would be discussed as part of the FY 2018 Budget Process.

Fire - One Emergency Medical Services Unit and Three Ladder Companies

The Fire Chief recommends adding one Emergency Medical Services Unit in FY 2018, and three Ladder Companies; one in FY 2018, the second would be added in FY 2020, and the final unit added in FY 2021 to keep up with the growth of the City. This would add a total of 57 new firefighters over the five years of the forecast. The cost associated with the new positions and equipment is a policy issue that would be discussed as part of the FY 2018 Budget Process.

FINANCIAL RESERVES

The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. Currently, the City holds a 'AAA' general obligation bond rating by the three major bond rating agencies - Standard & Poor's, Fitch, and Moody's. The 'AAA' bond rating is the highest credit rating an organization can receive and it allows the City to pay the lowest possible interest rates in the market. San Antonio is the only major city with a population of more than one million to have an 'AAA' bond rating from any one of the major rating agencies.

Consistent with the financial policies adopted by City Council in the FY 2015 Budget, the financial forecast maintains a 15% General Fund ending balance every year of the forecast.

HOTEL OCCUPANCY TAX RELATED FUNDS

CONVENTION, TOURISM, AND ENTERTAINMENT SERVICES

HOTEL OCCUPANCY TAX FUND

The Hotel Occupancy Tax (HOT) Fund accounts for revenues received from Hotel Occupancy Tax collections. The fund supports the City's convention and tourism activities through transfers to the Community and Visitor Facilities Fund (CVF), the Arts & Culture Fund, as well as through a Destination Marketing Agreement with Visit San Antonio (formerly the City's Convention & Visitors Bureau). The fund also supports various visitor-related activities including maintenance of the River Walk, HemisFair Park, and La Villita through a transfer of a portion of its HOT revenues to the General Fund under History and Preservation.

The following is the Financial Forecast for the Hotel Occupancy Tax Fund. It reflects projections for a five year period from FY 2018 through FY 2022. The Forecast includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. The Forecast includes financial projections on revenues, expenditures, ending balances, and potential adjustments.

Hotel Occupancy Tax Fund Forecast
($ in Millions)

	FY 2017 Budget	FY 2017 Estimate	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Transfer from Redemption & Capital Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NET BALANCE	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
REVENUES							
Hotel Occupancy Tax	$65.7	$66.4	$68.9	$70.8	$73.3	$75.8	$78.4
Miscellaneous	0.1	0.1	0.2	0.2	0.2	0.2	0.3
TOTAL REVENUES	$65.8	$66.5	$69.1	$71.0	$73.5	$76.0	$78.7
TOTAL RESOURCES	**$65.8**	**$66.5**	**$69.1**	**$71.0**	**$73.5**	**$76.0**	**$78.7**
TRANSFERS OUT							
Community & Visitor Facilities Fund (CVF)	$19.3	$19.3	$18.5	$18.8	$19.4	$20.1	$20.8
Visit San Antonio	22.5	22.5	23.3	23.8	24.5	25.2	26.1
Arts & Culture	9.6	9.6	10.0	10.2	10.5	10.8	11.2
Support for History and Preservation	9.6	9.6	10.0	10.2	10.5	10.8	11.2
Transfer to Alamodome Impvt & Conting Fund	0.0	0.0	0.2	0.4	0.7	0.9	1.7
Transfer to Redemption & Capital Reserve Fund	0.0	0.6	0.5	1.5	1.6	1.4	0.8
Transfer to Debt Service	1.5	1.5	2.2	3.0	3.4	3.8	3.9
Other Transfers	3.3	3.4	4.3	3.2	3.0	3.0	3.0
TOTAL TRANSFERS	**$65.8**	**$66.5**	**$69.1**	**$71.0**	**$73.5**	**$76.0**	**$78.7**
ENDING BALANCE	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*

ANALYSIS OF REVENUE VS EXPENDITURES

The Hotel Occupancy Tax Fund Forecast table presents a comparison of projected yearly revenues, current services expenditures, mandates, and projected balances over the forecast period. The ending balance reflects the difference between the beginning balance plus operating revenues and operating expenditures.

Revenues - The current Hotel Occupancy Tax (HOT) rate of 16.75% levied on every room night charge is comprised of 6% for the State, 7% for the City, 2% for the Convention Center Expansion Debt Service and future Convention Center Projects, and 1.75% for Bexar County's Venue Tax Projects which were approved by voters in May 2008.

HOT revenue projections are based upon an analysis of anticipated lodging demand, projected number of room nights sold, projected average daily room rates, estimated hotel room supply, and the projected inflation rate discussed in the Economic Perspective and Outlook section of the Forecast.

The City's 7% HOT collections are used to support tourism and convention activities, as well as arts and cultural programming. It includes funding up to 15% for Arts, up to 15% for History and Preservation, operation and maintenance of the Convention & Sports Facilities, and funding a Destination Marketing Agreement (DMA) with Visit San Antonio of approximately 35% of HOT for promotion and marketing of the City as a destination for conventions and leisure travel. The 2% HOT can only be used to support expansion of the Convention Center facility. The Texas State Tax Code requires that no more than 15% of City HOT revenue can fund arts and cultural programs, and a maximum of 15% can be used for history and preservation.

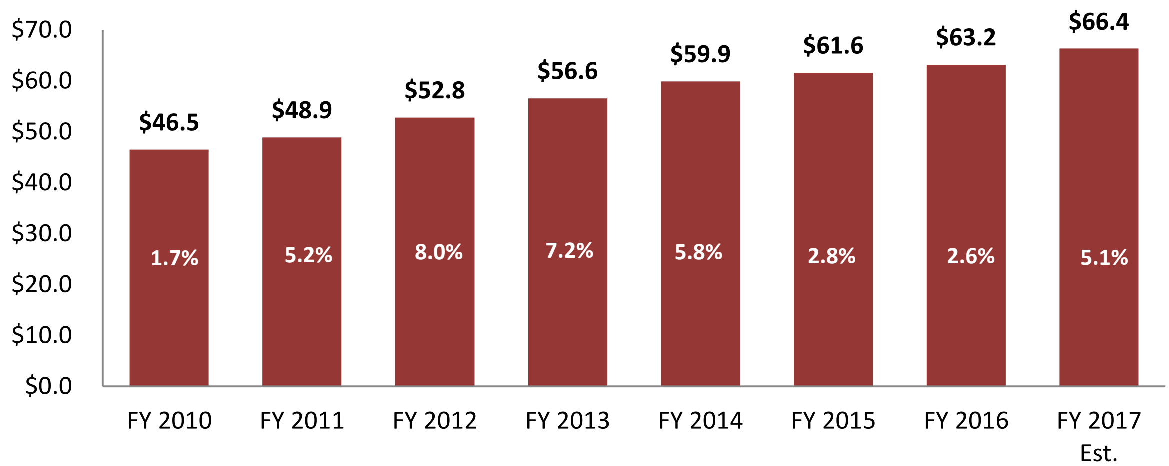
In FY 2013, City Council approved the issuance of debt for the Convention Center Expansion Project. The City utilizes all of its 2% Expansion HOT along with a portion of the incremental annual growth from the 7% HOT to make the required annual debt payments. The amount of 7% HOT required to be contributed towards debt payments will be applied first, leaving a Net 7% HOT which will be utilized for aforementioned operating categories. The allocation of up to 15% for Arts and History and Preservation as well as the 35% target for the DMA with Visit San Antonio will be applied to the Net 7% HOT.

HOT revenue is estimated to be $66.4 million for FY 2017, which is 0.9% higher than the FY 2017 Adopted Budget of $65.7 million. HOT revenues are projected to increase at annual rates of 3.8% (FY 2018), 2.8% (FY 2019), 3.5% (FY 2020), 3.4% (FY 2021) and 3.4% (FY 2022) during the Forecast period.

San Antonio's position as one of Texas's top leisure destinations continues to be a source of support for the hotel industry as San Antonio remains home to the State's top two tourist attractions – the Alamo and the River Walk, according to the State of Texas Office of Economic Development and Tourism.

As the historical 7% HOT Collections graph shows below, between FY 2010 and FY 2017, the City's 7% HOT Tax Collections grew 42.8%.

7% Hotel Occupancy Tax Collections
($ in Millions)



The dedicated 2% HOT revenue collections for the Convention Center Debt Service is recorded within a separate fund and is not reflected in HOT revenue projections within the Hotel Occupancy Tax Fund. However, should an event occur which would slow the collection of the 2% HOT to the extent that the costs of the Convention Center Debt Service could not be covered, the City would be required to transfer up to 5.25% of all HOT collections from the Hotel Occupancy Tax Fund to support the Convention Center Debt Service shortfall. Such a transfer would only occur if the anticipated 2% dedicated tax revenue stream did not produce the expected revenue amounts. The Forecast for the Hotel Occupancy Tax Fund assumes the FY 2017 estimate as the starting point for projecting future years' revenues.

Current Services Expenditures - Expenditures are based on the current services level and include anticipated mid-year adjustments within the HOT-supported departments. The current services level assumes that Arts and Cultural Agencies Funding and support for History and Preservation will remain at 15% of HOT collections net of debt service payments related to the Convention Center Expansion. The expenditures also include mandated expenditures, such as hosting obligations for booked conventions and sporting events.

In September 2016, the City Council approved a Destination Marketing Agreement (DMA) with Visit San Antonio (VSA) which transitioned the City's former Convention & Visitors Bureau into an independent non-profit agency. VSA's work will continue to market and promote the City as a destination for conventions and leisure travel. As part of the DMA, the City will target an annual allocation to VSA equal to 35% of the HOT revenue budget net of the debt service payments related to the Convention Center Expansion.

The inflation rates used to project certain non-personal services expenditures reflect the Consumer Price Index (CPI) projections for the San Antonio area. These rates and their underlying assumptions are described in the Economic Perspective and Outlook section. Shown below are the assumed inflation rates for each year of the Forecast period:

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
2.66%	3.04%	2.88%	2.46%	2.01%

COMMUNITY AND VISITOR FACILITIES FUND

The Community and Visitor Facilities Fund (CVF) accounts for revenues and expenditures generated from convention, tourism, sports, and entertainment related activities. The primary sources of revenue for the Convention and Sports Facilities Department are facility rentals, catering and concession commissions, reimbursable expenses, parking revenue, and various event-related fees from the Alamodome, Henry B. Gonzalez Convention Center, and Lila Cockrell Theater. Revenues for the facilities are based on a combination of event mix projections, growth assumptions, and service provider projections for each of the years in the Forecast period.

The following is the Financial Forecast for the Community and Visitor Facilities Fund:

Community and Visitor Facilities Fund
($ In Millions)

	FY 2017 Budget	FY 2017 Estimate	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Convention Center Revenues	14.8	17.5	18.3	18.7	19.1	19.4	19.8
Alamodome Revenues	10.5	12.0	12.0	12.0	12.1	12.2	12.3
Miscellaneous Revenues	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from Other Funds	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from Hotel Occupancy Tax	19.3	19.3	18.5	18.8	19.4	20.1	20.8
TOTAL RESOURCES	**$44.8**	**$49.0**	**$49.0**	**$49.7**	**$50.8**	**$51.9**	**$53.1**
EXPENDITURES							
Base Budget	$44.8	$49.0	$45.9	$47.1	$48.3	$49.4	$50.6
Mandates (Incremental)	0.0	0.0	3.1	2.6	2.5	2.5	2.5
TOTAL EXPENDITURES	**$44.8**	**$49.0**	**$49.0**	**$49.7**	**$50.8**	**$51.9**	**$53.1**
NET ENDING BALANCE	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***

ARTS & CULTURE FUND

The Arts & Culture Fund accounts for the operating expenditures of the Department of Arts & Culture as well as the contributions made to art and cultural agencies. It is supported through a transfer from the Hotel Occupancy Tax Fund. The Forecast assumes the art funding level at 15% of HOT budgeted collections every year of the forecast net of debt service payments related to the Convention Center Expansion.

The following is the Financial Forecast for the Arts & Culture Fund:

Arts & Culture Fund Forecast
($ in Millions)

	FY 2017 Budget	FY 2017 Estimate	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Transfer from General Fund (Luminaria)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from Hotel Occupancy Tax	9.6	9.6	10.0	10.2	10.5	10.8	11.2
Miscellaneous Revenue	0.6	0.6	0.5	0.5	0.5	0.5	0.6
TOTAL RESOURCES	**$10.3**	**$10.3**	**$10.6**	**$10.8**	**$11.1**	**$11.4**	**$11.8**
EXPENDITURES							
Base Budget	$10.3	$10.3	$10.6	$10.8	$11.1	$11.4	$11.8
TOTAL EXPENDITURES	**$10.3**	**$10.3**	**$10.6**	**$10.8**	**$11.1**	**$11.4**	**$11.8**
NET ENDING BALANCE	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***

Arts Funding - Through HOT revenues, San Antonio is able to fund art and cultural programs and agencies across the City. The Texas State Tax Code requires that not more than 15% of City HOT revenue funds arts and cultural programs. In FY 2007, the City Council approved an increase in funding to the maximum 15% allowed. In FY 2012 City Council approved the issuance of debt for the Convention Center Expansion. The funding for arts and cultural programs is equivalent to 15% of the HOT revenue collections net of debt service payments related to the Convention Center Expansion.

Art program funding is distributed on a competitive basis and is managed by the City's Department of Arts & Culture. There are six funding programs summarized as follows:

- Cultural Arts Operating Program
- Festivals and Community Celebrations Program
- stART Place Program
- Artist Re-Granting Program
- Technical & Economic Development Assistance Program

The Cultural Arts Operating Program provides support to arts and cultural agencies that have a budget of over $50,000 and meet a designated matching requirement. The Festivals and Community Celebrations Program encourages artistic presentations and performances at festivals and community celebrations with a clear and credible programmatic focus area of arts, culture, or heritage. The stART Place Program encourages partnerships between artists, artist collectives, and non-profit community-based agencies to stimulate neighborhood vibrancy with arts and culture opportunities. Funding is specific to activities and neighborhoods. The Artist Re-Granting Program supports arts and non-profit organization that have a mission that includes providing financial support to local professional artists. The Technical and Economic Development Assistance Program supports the organizational stability, development, and professional growth of arts and cultural organizations and artists. All the programs are competitive with specific review committees providing input on the major focus areas of each program.

The FY 2018 to FY 2022 Forecast assumes the art funding level at 15% of HOT budgeted collections net of debt service payment for the Convention Center Expansion every year of the forecast.

DEVELOPMENT SERVICES FUND

DEVELOPMENT SERVICES FUND

INTRODUCTION

The Development Services Fund was established in FY 2007 to account for revenues and expenditures generated from all development-related activities and to ensure development revenues are used to support development expenses. In addition to accounting for the revenues and expenses associated with the Development Services Department (DSD), the Fund collects revenue for the San Antonio Fire Department's Fire Prevention Division, revenue which is transferred to the General Fund to offset costs incurred to provide Fire Prevention services.

The Development Services Department is responsible for protecting the health, safety, and quality of life for the residents of San Antonio through regulation of land and building development. In addition, the Department seeks to provide an efficient and effective development process that supports City growth and economic development. This process includes consulting, educating, reviewing, permitting, inspecting, and granting authority to develop land and occupy buildings within the City. The Department is also responsible for master development plans, vested rights, subdivision mapping/parcel addressing, zoning administration, subdivision administration, building codes administration, landscaping, tree preservation, sign regulation, and development review of streets and traffic.

Since the development process involves review by other City departments and outside agencies, the Development Services Department seeks to facilitate the coordination of these reviews to provide quality customer service throughout the development process. The creation of the Development Services Fund has provided the following benefits to City departments and their customers:

- Greater trust by stakeholders and improved perception of the department

- Enhanced accountability by appropriately aligning revenues with expenses and adjusting to economic trends

Establishment of the Fund has also allowed the City to expand and reduce staffing levels and resources when needed to (1) ensure a positive fund balance, (2) make continuous improvements in the cycle time for permitting, (3) ensure consistency and quality of plan review and inspections, and (4) enhance customer service.

FIVE YEAR FINANCIAL FORECAST

The Financial Forecast for the Development Services Fund reflects projections for a five year period from FY 2018 through FY 2022 and includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. As shown below, the Forecast includes financial projections for revenues, expenditures, ending balances, and reserves.

Development Services Fund Forecast
($ in Thousands)

	FY 2017 BUDGET	FY 2017 ESTIMATE	FY 2018 PROJECTION	FY 2019 PROJECTION	FY 2020 PROJECTION	FY 2021 PROJECTION	FY 2022 PROJECTION
AVAILABLE FUNDS							
Beginning Balance	**$782**	**$3,025**	**$1,829**	**$1,850**	**$1,695**	**$692**	**$861**
Accounting Adjustment	-	(1,206)	-	-	-	-	-
Net Balance	**$782**	**$1,819**	**$1,829**	**$1,850**	**$1,695**	**$692**	**$861**
REVENUES							
Development Services Revenues	30,200	30,210	31,110	31,711	32,159	32,998	33,519
Transfer from General Fund - ICRIP	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Total Revenues & Transfers	32,700	32,710	33,610	34,211	34,659	35,498	36,019
TOTAL AVAILABLE FUNDS	**$33,482**	**$34,529**	**$35,439**	**$36,061**	**$36,354**	**$36,190**	**$36,880**
TOTAL EXPENDITURES	**$31,881**	**$31,200**	**$31,839**	**$32,616**	**$33,412**	**$33,078**	**$33,855**
GROSS ENDING BALANCE	**$1,601**	**$3,329**	**$3,600**	**$3,445**	**$2,942**	**$3,111**	**$3,025**
LESS: BUDGETED FINANCIAL RESERVES							
Budgeted Financial Reserves (Incremental Amt)	500	500	500	500	1,000	1,000	1,000
Reserve for Capital Projects (Incremental Amt)	1,000	1,000	1,250	1,250	1,250	1,250	1,250
NET ENDING BALANCE	**$101**	**$1,829**	**$1,850**	**$1,695**	**$692**	**$861**	**$775**
BUDGET RESERVE SUMMARY							
Budgeted Financial Reserves (Cumulative)	1,469	1,469	1,969	2,469	3,469	4,469	5,469
Reserve for Capital Projects (Cumulative)	1,000	1,000	2,250	3,500	4,750	6,000	7,250
TOTAL RESERVES	**$2,469**	**$2,469**	**$4,219**	**$5,969**	**$8,219**	**$10,469**	**$12,719**
Financial Reserve as % of Annual Operating Costs	5%	5%	7%	9%	12%	15%	18%

ANALYSIS OF REVENUES AND EXPENDITURES

The Development Services Fund Five Year Financial Forecast represents a comparison of projected yearly revenues, expenditures, reserves, and balances in the Fund over the Forecast period. The Forecast also calculates the added costs of policy issues such as Employee Performance Pay and the continued implementation of the Pay Plan. The Fund's ending balance reflects the beginning balance and operating revenues, less operating expenditures, transfers, and allocations for both budgeted financial and capital projects reserves.

Revenues – Through the first six months of the current fiscal year (October 2016 – March 2017), Development Services revenues, including transfers, are $240,000 below the 6-month planned amount. Total revenue for FY 2017 is projected to be approximately $10,000, or 0.03%, more than budgeted. Average commercial project valuation is anticipated to be 12% higher than FY 2016. Residential permitting has followed much the same trend in FY 2017, with average residential project valuations higher year-to-date and projected to be 10% higher than FY 2016 by year's end.

Development Services operating revenues reflect conservative growth in out years. Departmental revenue-generating activities were identified as relating primarily to New or Existing Commercial Construction, New or Existing Residential Construction, or a combination thereof, and growth rates applied thereafter based upon such designation. Given the aforementioned revenue components and the growth rates assigned to each category, total revenues increase by the following amounts over the Forecast period:

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
2.8%	1.8%	1.5%	2.3%	1.4%

Expenditures – Expenditures are based in part on the current service level. The inflation rates used to project non-personal services expenditures were derived from the Consumer Price Index (CPI) projections for each year from FY 2018 through FY 2022. These rates and their underlying assumptions are described in the Economic Outlook and Perspective section.

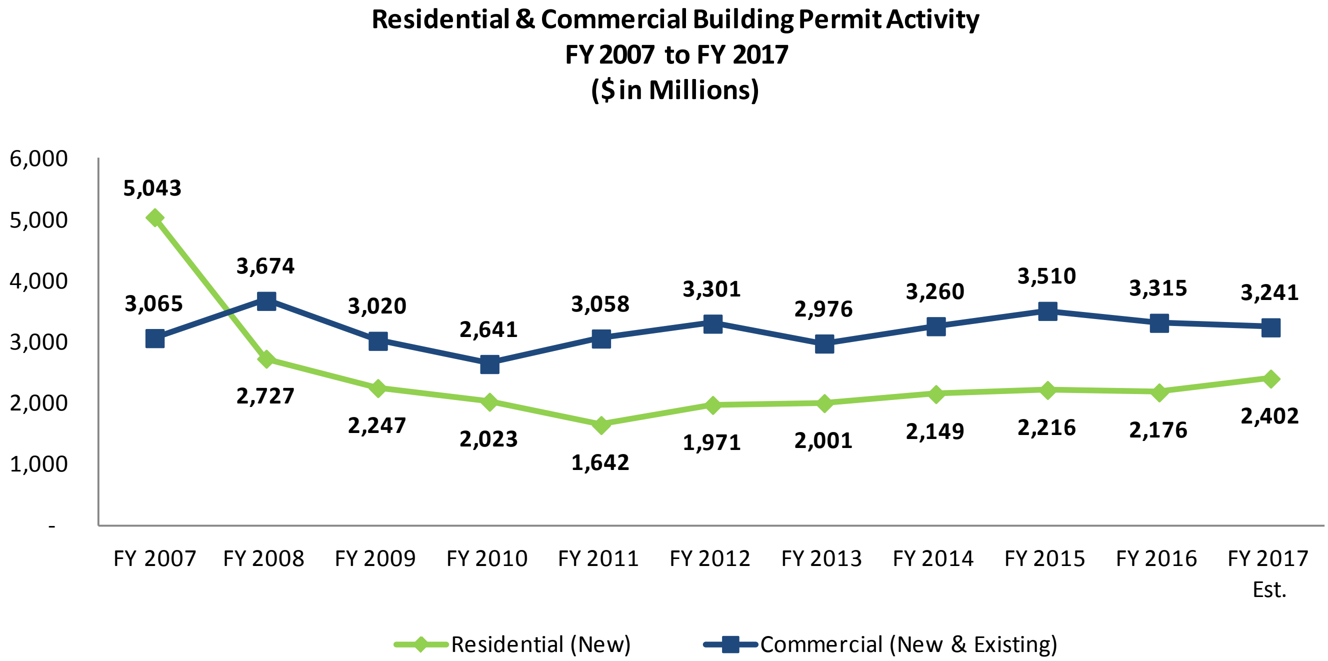
Below are the assumed inflation rates for each fiscal year of the forecast period:

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
2.66%	3.04%	2.88%	2.46%	2.01%

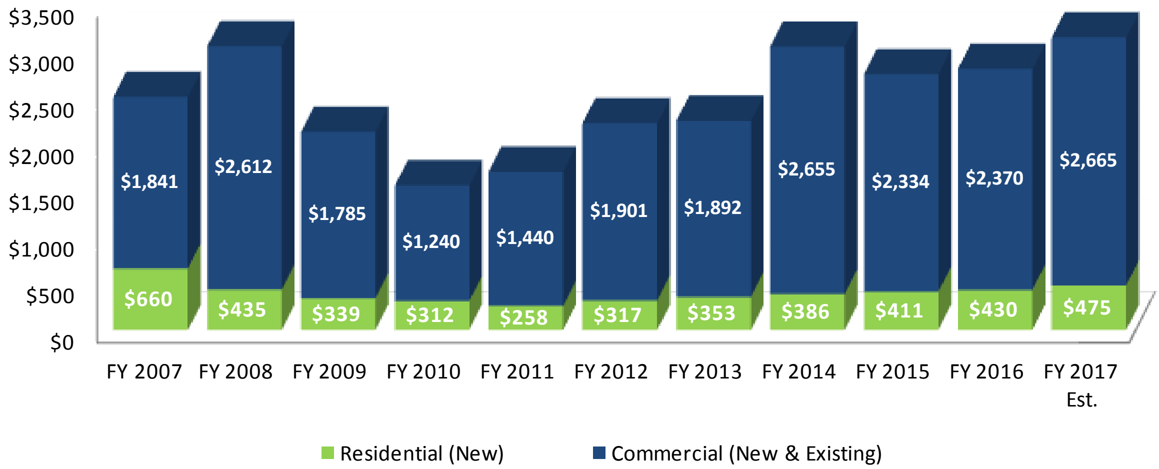
Employee compensation policy issues shown in the Forecast illustrate the impact of Performance Pay for eligible positions, as well as the cumulative impact of the Pay Plan Implementation for each year of the Forecast period. The Forecast includes the corresponding increases to both the Budgeted Financial Reserves and Reserve for Capital Projects. The Net Ending Balance takes into account the full impact of all transfers and operating expenses, including employee compensation issues and improvement requests.

The establishment and maintenance of appropriate financial reserves within the Development Services Fund is critical to prudent financial management. Budgeted Financial Reserves assist in smoothing fluctuations in available resources from year to year and stabilizing the budget. Additionally, in FY 2013, a reserve for replacement of the Hansen Permitting System was also established within the Fund. Moving forward this reserve will allow funds to be set aside for future Development Services related capital projects. During the Forecast period, Financial Reserves are projected to grow to 18% of operating expenditures.

Permit Activity and Valuation - The following graphs illustrate trends for both building permit activity and project valuation. After a sharp decline in FY 2008, the number of residential permits has grown moderately since FY 2011 and is projected to end FY 2017 up 10% from FY 2016. Commercial permit has experienced less volatility as compared to the residential sector. However, FY 2017 commercial permit activity is anticipated to end the year slightly below FY 2016.



Residential & Commercial Building Permit Valuation
FY 2007 to FY 2017
($ in Millions)



Building permit project valuation provides an additional layer of information regarding construction activities around the city. Higher project valuations give an indication of increased size, scope, and/or complexity of the building projects involved. Commercial building projects are the primary driver for development activity in the city. As the chart above indicates, commercial permit valuations in FY 2017 are expected to exceed the pre-recession peak year of FY 2008 for the first time. The contrasting visuals between the number of commercial permits issued from the chart on the previous page and the commercial project valuations shown above demonstrate that even though the number of commercial building projects is slightly down year-over-year, the projects are larger, more complex buildings.

Residential permit valuation, like residential permit counts from the previous page, have steadily grown since FY 2011 and is expected to be at its highest level since FY 2008. A similar level of valuation for both commercial and residential permitting is expected to continue into FY 2018.

SOLID WASTE OPERATING AND MAINTENANCE FUND

SOLID WASTE OPERATING AND MAINTENANCE FUND

The Solid Waste Operating and Maintenance Fund records all revenues and expenditures for services provided by the Solid Waste Management Department (SWMD) and the Office of Sustainability (OS).

The department is composed of the following divisions: Solid Waste, Recycling, Organics, Brush, and Environmental Management. These divisions contribute to reaching the Department's operational goals and the goals detailed in the Recycling and Resource Recovery Plan. SWMD is also responsible for maintenance and repair of all heavy equipment for the City.

RECYCLING AND RESOURCE RECOVERY PLAN

In June 2010, City Council adopted a 10-Year Recycling and Resource Recovery Plan (Recycling Plan). On January 31, 2013, the Recycling Plan was revised to a multi-year Recycling Plan and adopted by City Council. The strategic goals outlined in the Recycling Plan are to ensure that all single-family and multi-family residents have access to convenient recycling programs, to improve recycling opportunities for businesses, and to recycle 60% of all residential curbside materials collected by SWMD by the year 2025.

The Department has undertaken a variety of initiatives in order to reach these goals. Since the adoption of the Recycling Plan, the Department has revamped the brush and bulky collection process to increase brush recycling, opened an additional new brush recycling center in the City's South Side, increased blue cart recycling outreach, increased recycling education to schools, opened four bulky drop off centers, introduced Pay As You Throw (PAYT), and obtained City Council approval of an ordinance requiring multifamily complexes to provide recycling.

Since the implementation of the Recycling Plan, the Department has increased the amount of materials recycled from 7% to 33%. The Department recently completed the roll out of PAYT, its final phase of the next major step to achieve a 60% recycling rate by the year 2025, which will be outlined in more detail throughout the next sections.

FIVE-YEAR FINANCIAL FORECAST

The Financial Forecast for the Solid Waste Operating and Maintenance Fund reflects revenue and expenditure projections for a five year period from FY 2018 to FY 2022. As shown below, the forecast begins with the budget and preliminary estimated projections for the current fiscal year.

Solid Waste Fund Five-Year Forecast
($ in Thousands)

RESOURCES	FY 2017 Budget	FY 2017 Estimated	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection
Beginning Balance	$ 11,172	$ 11,506	$ 5,051	$ 1,264	$ 1,921	$ 7,159	$ 7,688
Adjustment for Reserve	-	-	-	-	-	-	-
CURRENT REVENUES							
Solid Waste Fee	$ 83,298	$ 84,111	$ 96,613	$ 103,670	$ 106,350	$ 104,624	$ 98,468
Environmental Fee	15,762	15,826	15,790	15,929	16,070	16,212	16,356
Recycling Revenue	2,771	3,406	3,875	4,297	5,683	6,687	6,865
Other Revenues	3,037	3,468	3,266	3,347	3,414	3,426	3,433
TOTAL CURRENT REVENUES	**$ 104,868**	**$ 106,811**	**$ 119,543**	**$ 127,243**	**$ 131,517**	**$ 130,950**	**$ 125,121**
TOTAL RESOURCES	**$ 116,040**	**$ 118,318**	**$ 124,594**	**$ 128,507**	**$ 133,438**	**$ 138,109**	**$ 132,809**
EXPENDITURES/RESERVES							
Base Service	$ 113,329	$ 113,266	$ 119,887	$ 122,457	$ 121,280	$ 125,279	$ 126,703
TOTAL EXPENDITURES	**$ 113,329**	**$ 113,266**	**$ 119,887**	**$ 122,457**	**$ 121,280**	**$ 125,279**	**$ 126,703**
Incremental Reserve			1,443	129	-	141	71
Incremental Capital Reserve			2,000	4,000	5,000	5,000	2,500
NET ENDING BALANCE	**$ 2,711**	**$ 5,051**	**$ 1,264**	**$ 1,921**	**$ 7,159**	**$ 7,688**	**$ 3,535**
BUDGETED RESERVE	$ 4,552	$ 4,552	$ 5,994	$ 6,123	$ 6,123	$ 6,264	$ 6,335

REVENUES

MONTHLY SOLID WASTE FEES

There are two major sources of revenue for the Solid Waste fund. The primary source is the monthly solid waste fee assessed to customers and billed and collected by CPS Energy. The solid waste fee is assessed to single-family households who receive waste collection services from the City. The second major source of revenue is the environmental fee, which is charged to all residential customers and commercial entities within the City. This fee is also billed and collected by CPS Energy. Forecasted revenues are based on annual growth factors of 0.20% and 0.88% for solid waste and environmental customers, respectively, from FY 2018 through FY 2022 along with any proposed rate increases.

The following table is a five-year history of the total monthly rate (solid waste and environmental fee) per household associated with the Solid Waste Fund before PAYT implementation.

History of Total Monthly Rates per Household (Pre-PAYT)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Total Monthly Rate	$18.74	$19.43	$19.43	$19.93	$20.93
Rate Adjustment	$0.00	$0.69	$0.00	$0.50	$1.00

Beginning in FY 2016, the new garbage collection rates (Pay As You Throw) went into effect. Pricing is based on the size of the garbage cart. The rates are designed to incentivize recycling behavior and provide funding for the additional personnel and equipment needed for PAYT conversion. The table below reflects the projected rates for PAYT rates.

Total Monthly Rates for PAYT

Carts	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Small	$20.43	$20.43	$19.93	$19.43	$18.93	$18.43	$17.93
Medium	$20.93	$20.93	$21.93	$21.93	$21.93	$21.93	$21.93
Large	$22.18	$22.18	$25.43	$28.68	$31.93	$35.18	$38.43
Small to Large Difference	$1.75	$1.75	$5.50	$9.25	$13.00	$16.75	$20.50

EXPENDITURES

PAY AS YOU THROW

In order to achieve the 60% recycling goal by 2025, SWMD began Pay As You Throw conversion in FY 2016. Major components to the program include education and outreach, as well as enforcement. Residents have the option to select from three different sizes of brown garbage carts (48, 64 or 96 gallons). Based on the rate structure, customers who select a smaller cart and throw away less trash will pay a lower rate. The rate structure also incentivizes residents to divert more waste into the green organics and blue recycling carts.

The PAYT conversion concluded in the Spring of FY 2017. However, due to the higher than expected participation in the organics collection program, additional personnel, trucks and carts will need to be added to support the organics program. The following table illustrates the additional personnel, trucks, and carts needed from FY 2018 through FY 2022.

Pay As You Throw – Additional Personnel, Trucks, Carts

Input	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Side-Load Driver	9				
Automated Side-Load Trucks	9				
PAYT Carts (brown)			41,509	53,332	53,545

As the rates increase for larger carts, it is expected that more customers will shift to a smaller cart, which will require the department to purchase more of the small and medium carts. The table below illustrates the anticipated cart demand assumptions from FY 2018 through FY 2022.

Pay As You Throw - New Cart Size Distribution

Cart Distribution	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Customers w/ Small	5%	10%	15%	20%	25%
Customers w/ Medium	10%	20%	30%	40%	50%
Customers w/ Large	85%	70%	55%	40%	25%

CONTAMINATION

In San Antonio, as well as nationally, recycling contamination rates are on the rise. Recycling contamination consists of two components: items that are not acceptable in the program (such as diapers), and potentially acceptable items that cannot be processed due to their condition (such as bagged recyclables). Contamination can be found in both the blue recycling cart and the green organics cart.

The Department has implemented several strategies to reduce contamination in both the blue and green carts. SWMD has implemented an inspection program for both carts. Residents who place incorrect items in the carts are issued a warning tag. Subsequent violations may result in a $25 fine. Upon receiving a warning, 95% of residents correct their behavior and avoid receiving a violation. However, the Department has experienced that without repeat inspections, some residents continue to commit violations. Due to the increase in contamination rates, improvements in education and enforcement are being recommended in order to reduce contamination and maintain consistency in inspections. The Department has also contracted with a communications firm to refine marketing materials and outreach strategies.

OTHER EXPENDITURES

Other expenditures assumed in the Forecast are based on a continuation of current service levels and includes inflationary increases. Inflationary increases in non-personal services expenditures were derived from the Consumer Price Index (CPI) projections for each year from FY 2018 through FY 2022. These rates and their underlying assumptions are described in the Economic Outlook and Perspective section. The FY 2018 base budget also assumes the removal of one-time improvements included in the FY 2017 Adopted Budget.

FINANCIAL RESERVES

The establishment and maintenance of an appropriate financial reserve within the Solid Waste Operating and Maintenance Fund is critical to prudent financial management. The FY 2018 though FY 2022 Forecast recommends a Budgeted Financial Reserve in an amount equal to 5% of annual operating expenditures. In addition, the FY 2018 through FY 2022 Forecast recommends increasing the Improvement & Contingency (I&C) Fund by $2 million in FY 2018, $4 million in FY 2019, $5 million in FY 2020 through FY 2021, and $2.5 million in FY 2022. The I&C Fund will assist the Solid Waste Management Department in funding future capital projects.

ECONOMIC OUTLOOK & PERSPECTIVE

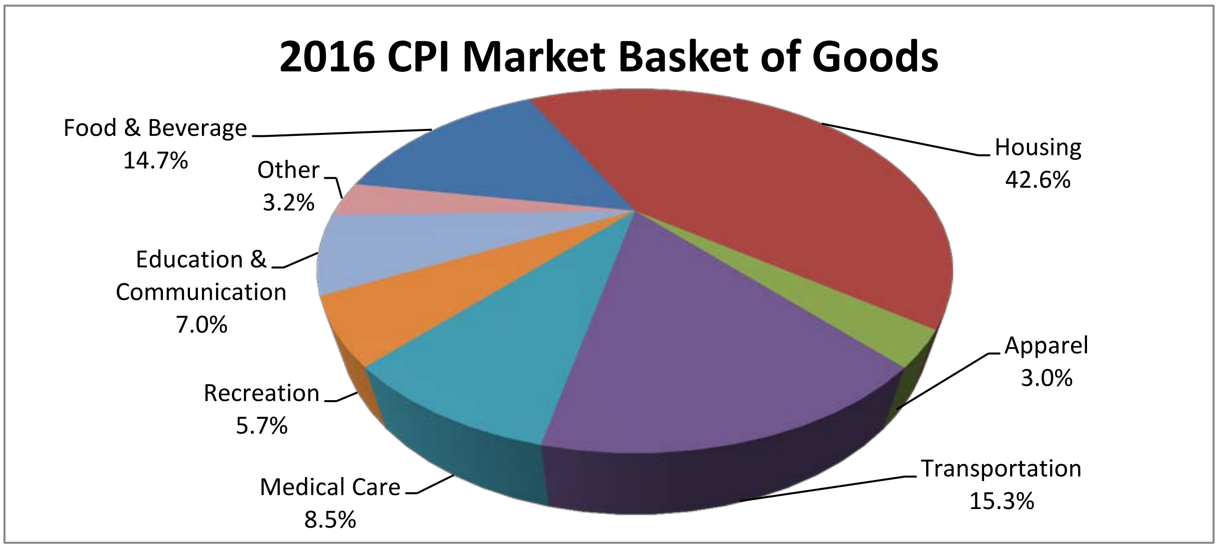
ECONOMIC OUTLOOK

OVERVIEW

A forecast of the City's finances recognizes that the City's fiscal health is directly linked to the success of the local, national, and global economies. In light of this relationship, the fiscal projections provided in this document are based, in large part, upon an analysis of historical and current economic trends. The historical data and forecast projections in this section are provided by government and private organizations. This section provides projections for the local and national economies, which support the fiscal projections presented in this document.

INFLATION

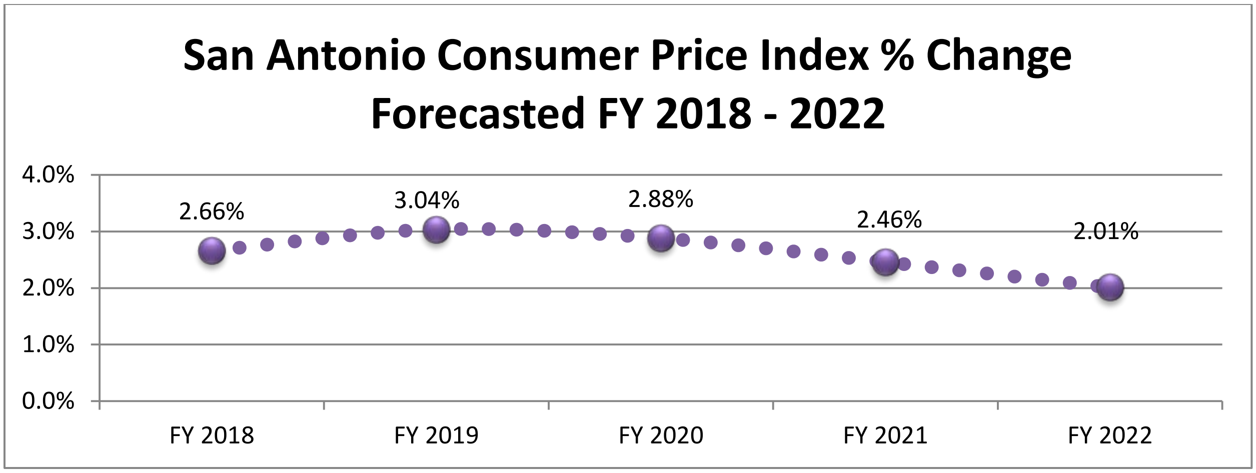
The Consumer Price Index (CPI), commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items, ranging from food and electricity to motor vehicle repair and dental services. The CPI does not, however, include investments such as stocks or real estate.



The Bureau of Labor Statistics has classified each expenditure item in this basket of goods into more than 200 categories. Each one of these categories is cataloged into eight major groups, as shown in the figure above. For example, pets and pet products is a category located in the recreation group and makes up 0.59% of the total basket of goods in the 2016 index.

The Consumer Price Index is used as the inflationary factor for specific non-personnel services expenditures to develop the General Fund and other funds' forecasts. This allows the City to plan for possible increases in certain commodities and other costs in the next five years by accounting for rising prices.

Additionally, CPI serves as a cost of living index. With assistance from Moody's Financial Services, the projections for CPI have been developed and modified to reflect the City's budget cycle based on a fiscal year lasting from October 1 to September 30.

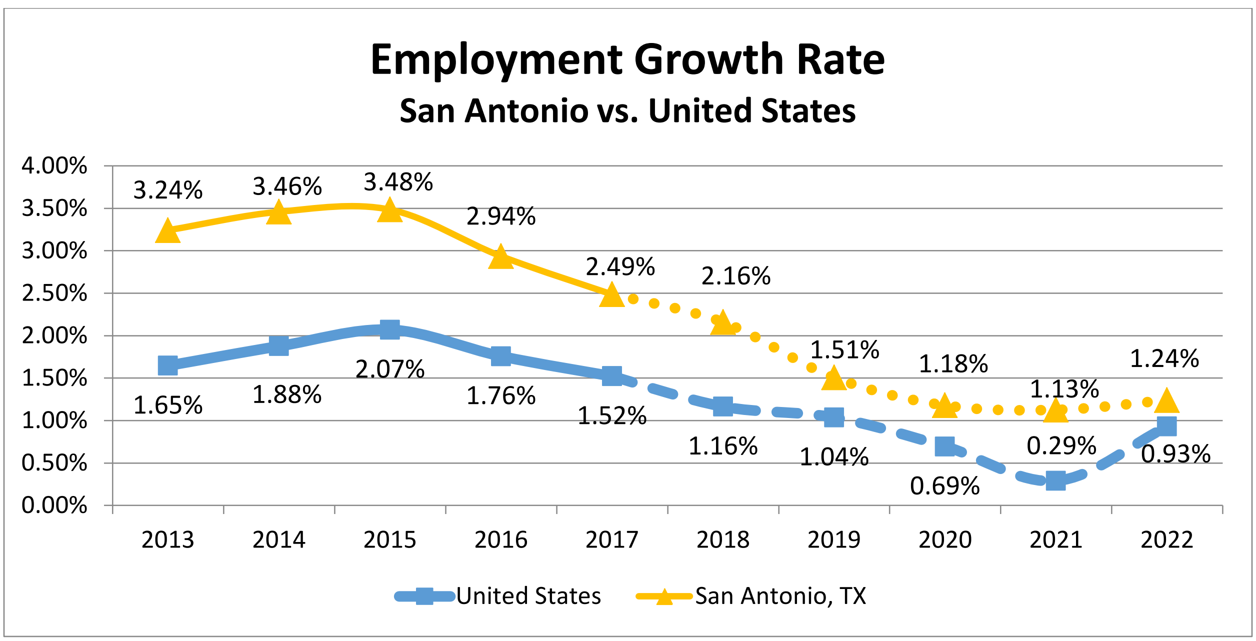


Source: Projection Data from Moody's Economy.com

SAN ANTONIO ECONOMY

EMPLOYMENT

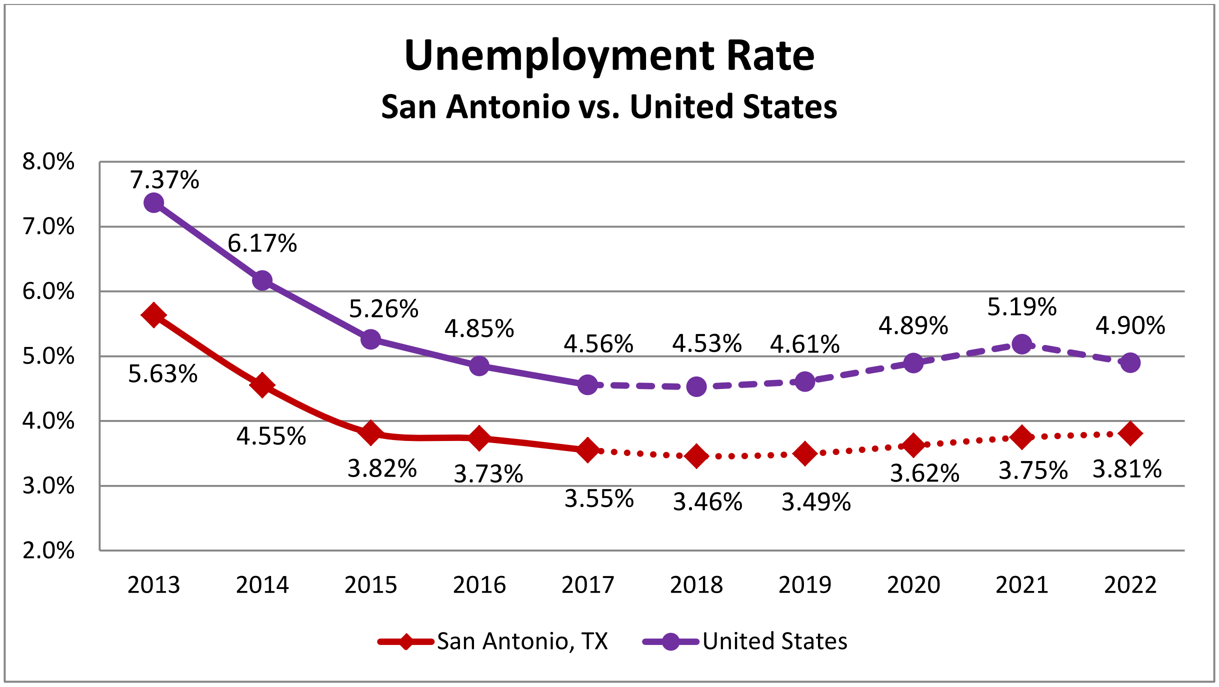
Increases in the total number employed persons in a particular region can be attributed to either job creation from within the area or the migration of jobs into the region. The figure below provides employment growth rate historical and projected data for San Antonio and the United States.



Source: Projection Data from Moody's Economy.com

UNEMPLOYMENT

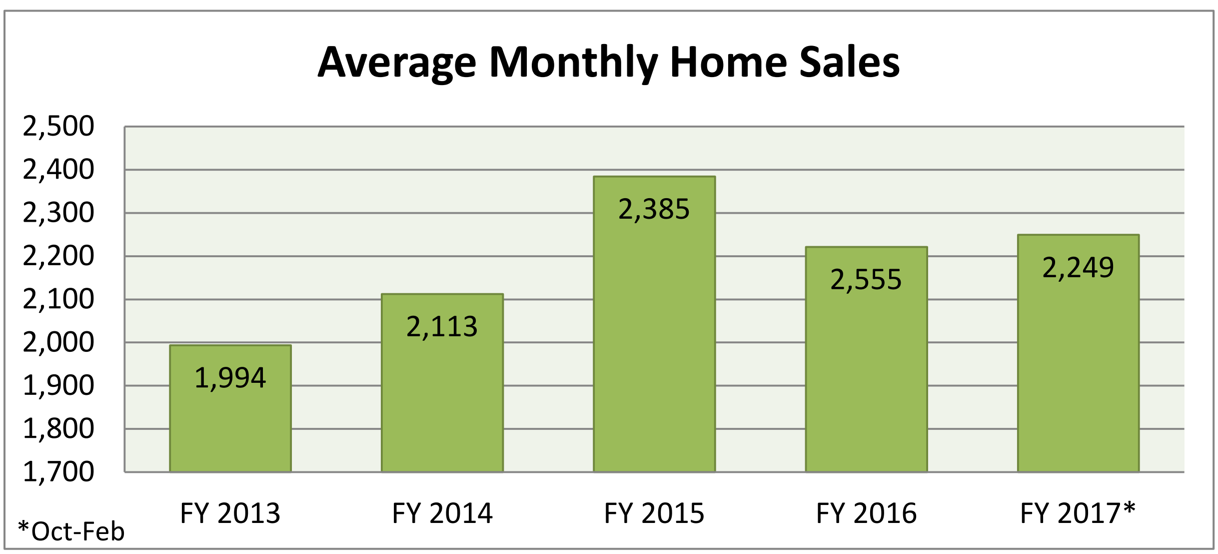
The Unemployment Rate represents the number of unemployed persons as a percent of the labor force. An unemployed person is defined as someone aged 16 years or older who has been looking for employment for at least four weeks. The national Unemployment Rate has steadily decreased from 7.4% in 2013 to 4.9% by the end of 2016. The City of San Antonio's Unemployment Rate has remained below the national average each of the past five years.



Source: Projection Data from Moody's Economy.com

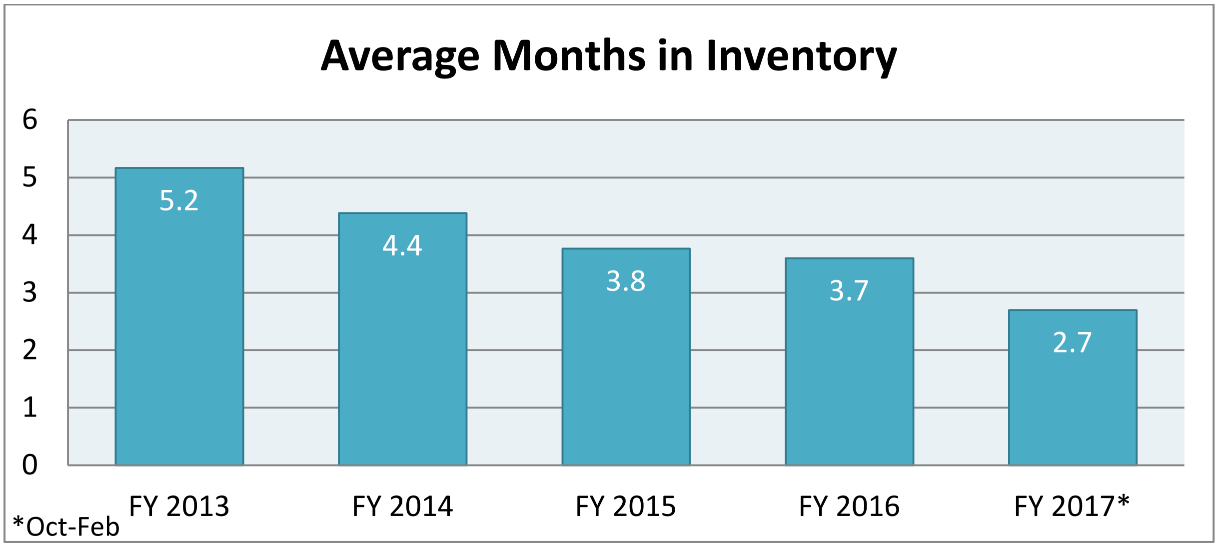
HOUSING

The Housing Market in San Antonio has continued its recovery from recession levels, with Average Monthly Home Sales and the Median Housing Price steadily rising from 2013 to 2017, while Average Months in Inventory steadily decreased over that same period. Current fiscal year data suggest the number of homes put on the San Antonio market may be leveling out but those homes spend less time in inventory and are steadily increasing in price.



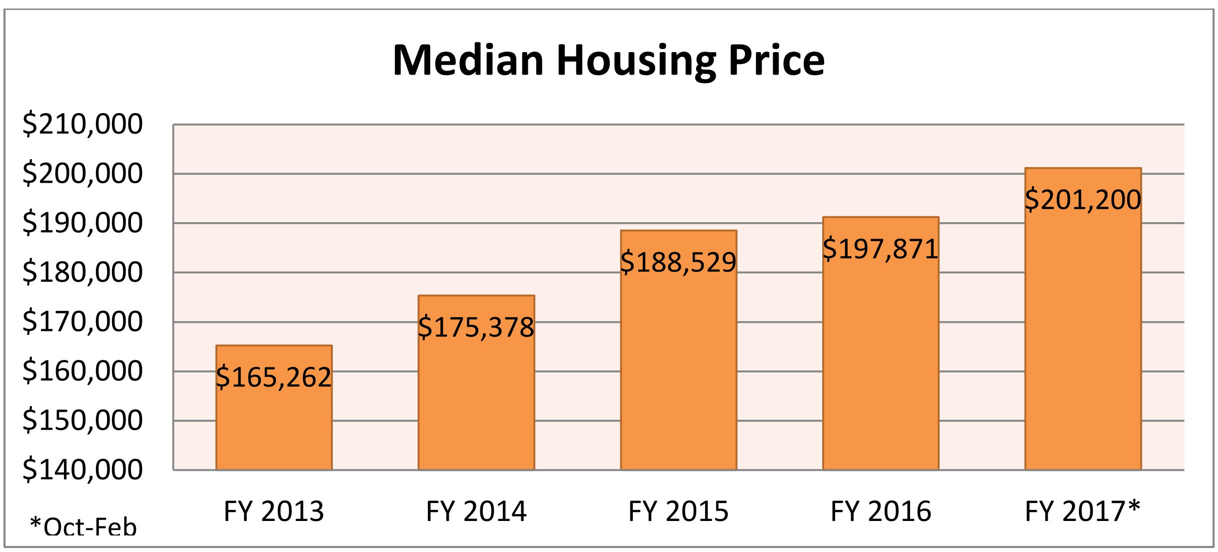
Source: Real Estate Center at Texas A&M University

Months in Inventory measures the amount of time it would take to sell the current housing inventory or supply if no other homes were added to the current inventory. Like the rest of the country, the San Antonio housing market saw this number increase steadily between FY 2007 and FY 2009, however it has steadily decreased since FY 2010. The current year's average of 2.7 months in inventory is 27% lower than last year's 3.6 months.



Source: Real Estate Center at Texas A&M University

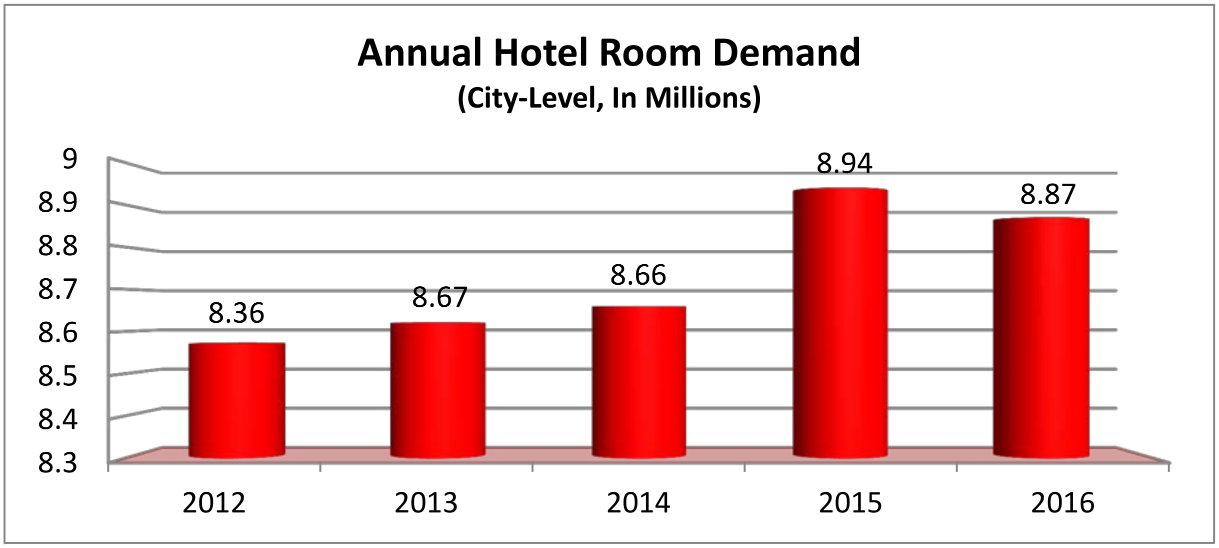
Median Housing Price is the midpoint price of home sales in each year at which half the homes are sold above this price and half the homes are sold below this. The median prices for home sales increased each of the past four years, with a 15.7% increase from 2013 to 2016.



Source: Real Estate Center at Texas A&M University

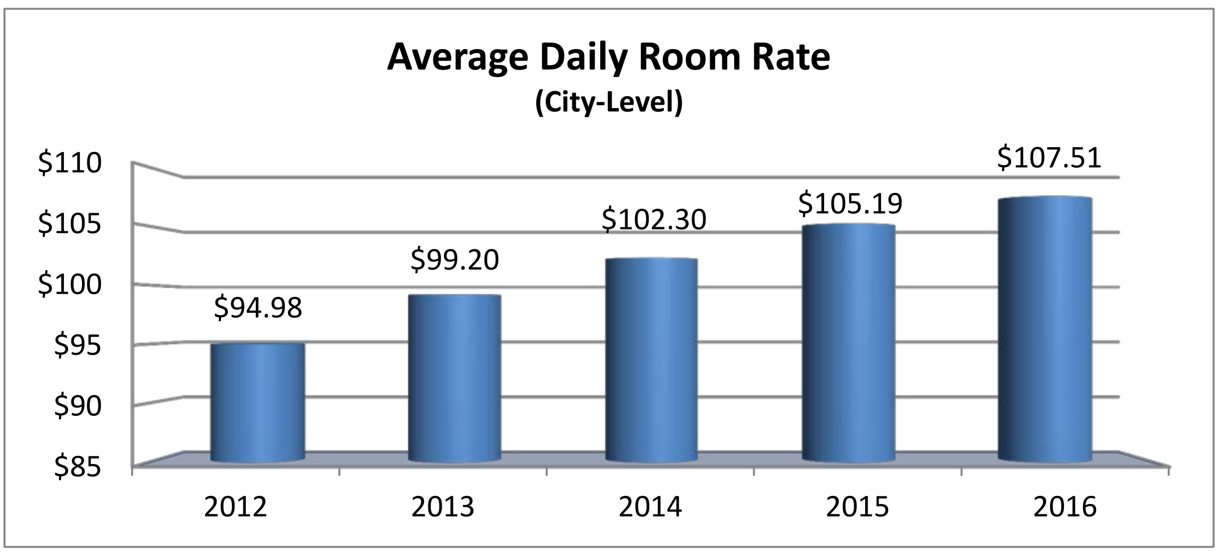
HOSPITALITY INDUSTRY

Despite national economic challenges, the San Antonio hospitality industry continues to be one of the top leisure/convention cities in the country and benefits from being located within driving distance from Dallas, Houston, and other Texas cities. Current fiscal year data suggests Hotel Room Demand may be leveling out after an eight year rise, in which 1.13 million additional rooms were added.



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated March 2013, March 2014, February 2015, February 2016, and February 2017.

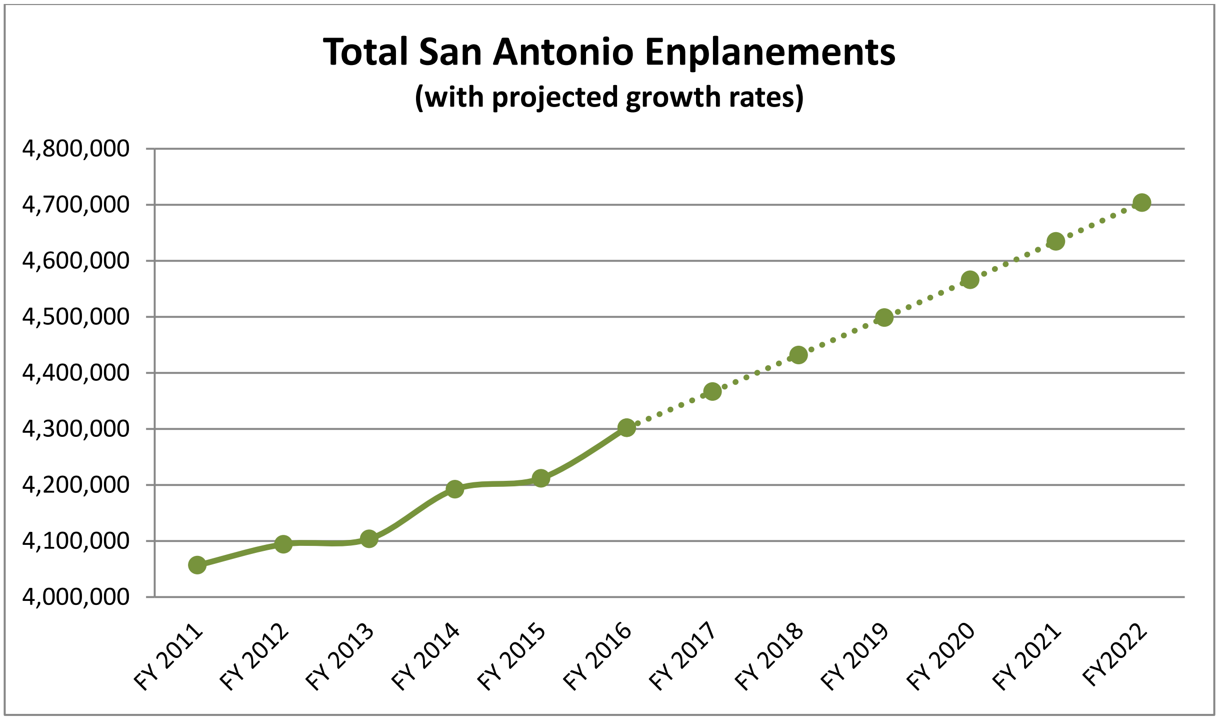
Average Daily Room Rate (ADR) is the average price of a room night in San Antonio. ADR is indicative of the hospitality industry's health, and is also affected by the supply of hotel rooms. San Antonio's ADR saw marginal growth in 2016, rising 2.2% above the 2015 rate to $107.51 per night.



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated March 2013, March 2014, February 2015, February 2016, and February 2017.

ENPLANEMENTS

San Antonio International Airport is the only commercial service airport serving the City and the San Antonio metropolitan area. A strong local economy along with a significantly improved airline industry has resulted in substantial growth at the airport in the last decade. Since FY 2011 total enplanements have increased by 6.0% and are projected to grow 1.5% annually each year from FY 2018 through FY 2022.



Source: Aviation Department, City of San Antonio